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DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT—INDEPENDENT AGENCIES APPROPRIATIONS FOR 1987

ORIGINAL
COMPLETED
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HEARINGS

BEFORE A

SUBCOMMITTEE OF THE

COMMITTEE ON APPROPRIATIONS
HOUSE OF REPRESENTATIVES

NINETY-NINTH CONGRESS

SECOND SESSION

SUBCOMMITTEE ON HUD—INDEPENDENT AGENCIES

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BOB TRAXLER, Michigan
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MARTIN OLAV SABO, Minnesota
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RICHARD N. MALOW, PAUL E. THOMSON, and DON RYAN, *Staff Assistants*

PART 1

	Page
American Battle Monuments Commission	1
Cemeterial Expenses, Department of the Army	35
Federal Home Loan Bank Board	69
Office of Revenue Sharing	263
National Credit Union Administration	313
Selective Service System	335
Office of Consumer Affairs	381
Neighborhood Reinvestment Corporation	421
Consumer Information Center	529
Consumer Product Safety Commission	567
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U.S. GOVERNMENT PRINTING OFFICE
WASHINGTON : 1986

58-429 O

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DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT—INDEPENDENT AGENCIES APPROPRIATIONS FOR 1987

WEDNESDAY, FEBRUARY 19, 1986.

THE AMERICAN BATTLE MONUMENTS COMMISSION

WITNESSES

MAJ. GEN. A. J. ADAMS, U.S.A., SECRETARY

COL. FREDERICK C. BADGER, C.E., DIRECTOR OF ENGINEERING AND MAINTENANCE

COL. CLAYTON L. MORAN, FA, DIRECTOR OF PERSONNEL AND ADMINISTRATION

COL. WILLIAM E. RYAN, JR., AD, DIRECTOR OF OPERATIONS AND FINANCE

OPENING REMARKS

Mrs. BOGGS. It is nice to see all of you.

I am delighted to be with you. Major General Adams, would you like to simply proceed with your statement?

General ADAMS. Madam Chair, as you have a copy of my prepared statement and it will appear verbatim in the record, I will summarize its contents to conserve time.

Last November I inspected each of our cemeteries in the European and Mediterranean areas and most of the memorials there. It is a pleasure to report that they were in the best condition that I have ever seen over the past 17 years.

Vice President Bush laid a wreath at the Saipan Monument in October and he seemed to be very well pleased with its appearance.

Regarding our appropriation request, I am concerned about the rapidly falling value of the dollar, inflation in the countries where our installations are located and future cuts in the appropriations that will be imposed by the Gramm-Rudman-Hollings Act. Their combined effect will jeopardize our present standard of maintenance.

The Commission's appropriation request for fiscal year 1987 is $11,673,000, $1,305,000 more than our fiscal year 1986 appropriation as reduced.

This completes my summary. We will be happy to reply to your questions.

[The statement of Major General Adams follows:]

Mr. Chairman and Members of the Subcommittee, thank you for the opportunity to testify today in support of the American Battle Monuments Commission's fiscal 1987 Appropriation Request.

During the month of November last, I inspected each of our cemeteries in the European and Mediterranean areas and most of our memorials there. I am pleased to report that I found our installations to be more beautiful and meticulously maintained than ever before. The grounds and structures all were in an excellent state of repair; supplies, equipment and spare parts were adequate; and the morale of our personnel was excellent. This is due almost entirely to the favorable dollar exchange rates during the past several years. All Americans can be extremely proud of the manner in which our heroic War Dead are being honored at these shrines.

The landscaping of the Saipan Monument was completed last May. Vice President Bush laid a wreath at the monument in October and was laudatory in his comments about it. Colonel Badger, our Director of Engineering and Maintenance, recently returned from an inspection of the Saipan Monument. He reports that the new plantings are taking hold very well and that the National Park Service is doing an excellent job in its day-to-day care.

Regrettably, fiscal 1985 may be the last time in the foreseeable future that we will be able to maintain these shrines at the present standard. I say this because of the anticipated impact of the rapidly falling dollar on foreign exchange markets, inflation in the countries where our installations are located, and the future reductions in spending that will be dictated by the Gramm-Rudman-Hollings deficit reduction act. Indications are that the combined effect of these factors beyond our control may reduce the purchasing power of our budget request by more than 30%.

Because the Commission is basically a service type organization, our personnel costs are 72% of the request. This leaves only 28% of our budget for the entire administration, operation and maintenance of these shrines. If all costs other than personnel such as communications, utilities, supplies, equipment, spare parts and repairs were eliminated, which of course is impossible, there will be insufficient funds to pay our personnel under the scenario of a continuingly falling dollar on world markets, inflation overseas, and an across the board cut under the Gramm-Rudman-Hollings Act of any significance. I am convinced that this is a conservative assessment. Needless to say, we seriously need all of the funds in our request together with a strengthening of the dollar overseas, and a relatively small across the board reduction under the Gramm-Rudman-Hollings Act.

The Commission's Appropriation Request for fiscal 1987 is $11,675,000, $1,305,000 more than our fiscal 1986 Appropriation as reduced by Public Laws 99-166 and 99-177.

This concludes my prepared statement. We will be pleased to respond to your questions. Thank you for your attention.

EFFECTS OF SEQUESTRATION

Mrs. Boggs. Thank you.

This year's request reflects the fiscal year sequestration of $466,000. Your current projected fiscal year 1986 obligations have decreased from last year's projections in object class 22, transportation of things, minus $10,000; object class 25, contracts and other services, minus $313,000; object class 26, supplies and materials, minus $45,000; object class 31, equipment, minus $195,000; and object class 32, land and structures, minus $168,000.

Are these decreases due to the sequestration or to other factors? How specifically will you handle the reductions?

General Adams. They are due to sequestration, to differences in exchange rates and to inflation. In order to cope, we are reducing purchases of supplies and equipment to the bare minimum necessary to get by and reducing contractual repairs to those of an emergency nature.

Mrs. Boggs. Was it when the dollar value became quite high that you were able to have such fine maintenance and put things into such good condition?

General Adams. You are quite right, Mrs. Boggs. For the last three or four years, favorable exchange rates have generated a surplus of funds available for planned purchase and repairs. Consequently, we have been able to perform a lot of catch-up equipment replacement and maintenance and repair projects.

Mrs. BOGGS. Then, during the last three years we have allowed you to reprogram the funds so that you could put them into the areas where you needed them the most. Is that correct?

General ADAMS. That is correct, and we appreciate the reprogramming.

Mrs. BOGGS. Are you saying that where the dollar became so high in value, inflation in those countries almost caught up with it? And now that the dollar is being devalued you are caught in a situation of instead of having an excess of funds, you have a decrease in funds?

General ADAMS. That is correct.

NEED FOR A SUPPLEMENTAL APPROPRIATION

Mrs. BOGGS. This year you are requesting a supplemental appropriation due, according to the President's budget request, to the decline of the dollar. I am concerned that the devaluation of the dollar, along with the Gramm-Rudman cuts, will really affect your fiscal year 1986 program. What were your original assumptions for exchange rates in the 1986 budget?

General ADAMS. For the 1986 budget I believe the French franc was 8.4 and it is now 7.2.

Colonel RYAN. There has been about a 12 percent loss since the start of the fiscal year and a 22 percent loss since last July.

Mrs. BOGGS. What are your current assumptions about exchange rates for fiscal years 1986 and 1987?

General ADAMS. My assumption is the dollar is going to continue to depreciate but not as rapidly as it has in the past. This of course is a guess, and there may be a lot of economists in this country that won't agree.

Mrs. BOGGS. Will the supplemental you requested be sufficient?

General ADAMS. No, Ma'am, it will not. The $235,000 will cover most of the wageboard cost of living increases for our local nationals. It will not cover $17,000 for military pay raises and $30,000 for—

Colonel RYAN. Losses in exchange rates since the increases were computed.

Mrs. BOGGS. Should you not get the supplemental, where will you get the necessary funding?

General ADAMS. That is a good question. Right now I don't know.

Mrs. BOGGS. Any suggestions?

Colonel RYAN. No, Ma'am. We need that supplemental desperately.

Mrs. BOGGS. Do you expect to need a supplemental in fiscal year 1987 also?

General ADAMS. Yes. With the Gramm-Rudman sequestration, or whatever you want to call it, inflation and dollar exchange losses whether they remain where they are now or become lower, unquestionably we will need a supplemental.

REPROGRAMMING DUE TO DOLLAR APPRECIATION

Mrs. **Boggs**. In previous years, the subcommittee approved reprogramming requests in dollar exchange appreciation realized for maintenance and repair projects. Within the last year, of course, there has been the decreasing exchange rate that you have mentioned.

How has this affected your maintenance and repair program in the fiscal years 1986 and 1987?

General **Adams**. I will let Colonel Badger answer most of this, but we will be unable to do many of the projects that were scheduled for 1986. I think we may be able to perform three out of nine projects or something like that.

Colonel **Badger**. Well, yes. Because of past favorable exchange rates, we were hoping to reduce deferred projects in fiscal years 1985 though 1987 by close to a half million dollars, of which $200,000 were actually accomplished in 1985. We had hoped to reduce this list by $125,000 in 1986 and $130,000 in 1987, however, because of falling exchange rates, inflation and Gramm-Rudman most of our projects will slip from 1986 to 1987 and then from 1987 on back.

For example, of the 58 projects we have planned to accomplish in fiscal 1986, which we testified to last year, 40 of them have been moved back or put on the deferred list.

Mrs. **Boggs**. Could you provide for the record the list of those deferred projects?

Colonel **Badger**. Yes, I certainly will.

[The information follows:]

DEFERRED PROJECTS

PARIS OFFICE

Replace telephone system	$ 10,000
Replace furnace	5,000
Repair roof terrace	42,000
Total for Paris Office	57,000

AISNE-MARNE

Constr water treat plant	18,000
Clean & treat monument, Chateau-Thierry	90,000
Instl sprinkler Ph II of II	45,000
Instl stairs to basement	5,000
Renovate basement rooms, Chateau-Thierry	14,000
Repl windows & grills, Chateau-Thierry	3,000
Total for Aisne-Marne	175,000

ARDENNES

Repair paths & align curbs	50,000
Extend parking areas	40,000
Instl heating, toilet bldg	4,000
Repl cracked memorial windows	6,000
Resurface service roads	20,000
Repl five service bldg doors	4,500
Repl furnace both qtrs	4,000
Repl potable water lines	12,000
Instl sprinkler at entrance	5,000
Renovate baths both qtrs	10,000
Instl dbl pane windows supt qtrs	5,500
Total for Ardennes	161,000

BROOKWOOD

Straighten headstones	6,000
Topographic survey	4,000
Total for Brookwood	10,000

BRITTANY

Constr cellar both qtrs	12,000
Replace sprinkler system	60,000
Resurface service roads	15,000
Instl dormers both qtrs	12,000
Repair & reseal terrace	7,000
Constr ceiling over garage	7,000
Storm windows visitors bldg, includes frames	8,000
Replaster int visitors bldg	7,000
Repoint lower chapel tower	28,000
Stairs & heat both attics	13,000

Rehab attics both qtrs	7,000
Instl storm windows both qtrs	9,000
Repl furnaces both qtrs	8,000
Renovate baths both qtrs	8,000
Constr workshop & lunchroom	12,000
Topographic study	6,000
Rewire chapel & pump sta	10,000
Total for Brittany	229,000

CAMBRIDGE

Replace telephone cable	3,500
Insulate both quarters	9,000
Repolace floor tiles both qtr	11,000
Instl A/Supt's storm windows	7,000
Heat & insul visitors toilet	8,000
Total for Cambridge	38,500

EPINAL

Replace sprinkler system	95,000
Repair memorial roof & gutters	7,000
Replace potable water line	20,000
Replace coping perim wall	33,000
Repl roof tile & flashings, both quarters	20,000
Improve employees lunch room	3,000
Renovate baths both qtrs	7,000
Total for Epinal	185,000

FLANDERS FIELD

Dig test well	7,000
Replace shutters & windows, reception bldg	8,000
Total for Flanders Field	15,000

HENRI-CHAPELLE

Replace furnace both qtrs	10,000
Insulate asst supt's attic	4,000
Resurface roads and paths	45,000
Renovate supt's kitchen	4,000
Construct reception building	110,000
Repl storage bldg roof tiles	4,000
Install city water	9,000
Constr verandas both qtrs	6,000
Reconstr memorial terrace	200,000
Renovate public toilets	18,000
Reconstr main storage bldg	18,000
Constr office & visitors room, museum	21,000
Extend refractory	8,000
Repl museum heating unit	7,000
Regild eagles on pylons	12,000

Polish interior marble, chapel & museum	6,000
Constr new visitors toilets	85,000
Instl attic baths both qtrs	5,000
Total for Henri-Chapelle	572,000

LORRAINE

Enlarge office	16,000
Constr additional parking	32,000
Enclose compost shed	6,000
Install ceiling in garage	3,000
Install dormers both qtrs	20,000
Repl kitchen cabinets, both qtrs	6,000
Instl alarm both qtrs & visitors bldg	9,000
Repoint memorial steps	15,000
Repl shutters both qtrs	5,000
Repl garage rolling doors	4,000
Total for Lorraine	116,000

LUXEMBOURG

Instl carpeting both qtrs	3,500
Rewire asst supt qtrs	3,000
Instl rolling shutters both qtrs	9,000
Repair memorial terrace	80,000
Replace furnace qtrs No. 2	4,000
Replace perimeter fence	18,000
Resurface footpaths	50,000
Topographic survey	8,000
Instl automatic sprinklers	70,000
Total for Luxembourg	245,500

MEUSE-ARGONNE

Improve qtrs No. 3	30,000
Add additional bedroom, supt qtrs	9,000
Repl water storage tank, Montfaucon	3,500
Install pool treatment sys	28,000
Repl garage heating system	5,000
Reinforce church arches, Montfaucon	10,000
Extend curb at nursery	3,000
Replace interphone system	3,000
Clean & treat memorial	20,000
Clean & treat monument, Sommepy	18,000
Total for Meuse-Argonne	129,500

NETHERLANDS

Repl furnace both qtrs	5,500
Enlarge exterior toilets	28,000
Repair perimeter road	7,000

Clean & treat memorial	80,000
Instl rolling shutters, both qtrs	6,000
Constr new visitors toilet	85,000
Constr bath asst supts qtrs	10,000
Total for Netherlands	221,500

NORMANDY

Constr garage both qtrs	12,000
Landscaping battle site, Pointe du Hoc	100,000
Instl attic baths both qtrs	9,000
Repl visit bldg floor tiles	4,000
Floor & walls supt attic	3,500
Rewire service bldg	5,500
Constr support bldgs, Pointe du Hoc	190,000
Widen cem path to side gate	5,500
Constr workshop in garage	11,000
Repair cemetery paths	15,000
Restore power to chapel	12,000
Weatherproof both qtrs	6,000
Rehabilitate reflecting pool	3,600
Install new flagpoles, Pointe du Hoc	4,000
Constr pedestrian paths, Point du Hoc	12,000
Install peripheral fence, Point du Hoc	9,000
Instl exterior light system, Point du Hoc	6,500
Constr sewage disposal sys, Point du Hoc	35,000
Repl gutters & downspouts	3,500
Clean chapel	10,000
Rehab asst supt kitchen & bath	10,000
Repair service parking area	5,000
Repl potable water pumps	4,000
Constr dormers asst supt qtrs	9,000
Install six granite benches	3,000
Instl access road curbing	25,000
Install additional fences	3,000
Repair memorial maps	7,000
Constr greenhouse complex	8,000
Install six stone benches, Utah Memorial	3,000
Install sprinkler system, Utah Beach	10,000
Rewire service building	5,500
Instl automatic sprinklers	190,000
Constr new visitors toilet, Pointe du Hoc	50,000
Repl supts furnace	3,000
Instl wire fences both qtrs	3,000
Resurface esplanade, Utah Beach	9,000
Topographic survey	24,000
Total for Normandy	828,600

OISE-AISNE

Constr compost platform	35,000
Replace boundary fence	50,000
Replace stained stones, memorial	5,000
Restore existing fillrod bldg	30,000
Repl compost roof	5,000
Total for Oise-Aisne	125,000

RHONE

Constr front wall	35,000
Resurface service road	5,000
Repl sprinkler system	65,000
Repaint visitors bldg	8,000
Total for Rhone	113,000

ST. MIHIEL

Resurface road to compost area	23,000
Resurface Montsec road, Montsec	35,000
Renovate kitchen	4,000
Construct storage building	38,000
Repair compost building	10,000
Enclose compost shed	15,000
Rebuild service area	76,000
Topographic survey	6,000
Total for St. Mihiel	207,000

SOMME

Repl supt & recp windows	9,000
Constr additional storage, Bellicourt	4,000
Replace visitor's furnace	3,000
Paint fence phase I of III	30,000
Replace sprinkler system	40,000
Repl gutters & roof tiles	18,000
Repair flagpole stone base	3,000
Rebuild flagpole base	6,000
Rework service area runoff	6,000
Insulate supts attic	2,000
Total for Somme	121,000

SURESNES

Relocate gas pump	13,000
Rewire memorial chapel	9,000
Repair qtrs driveway	25,000
Repair ex walls visitor bldg	10,000
Widen paths north rotonda	6,000
Spotlights at chapel & gate	2,500
Construct service building, Phase I of II	45,000
Extend visitors bldg office	43,000
Total for Suresnes	153,500
TOTAL DEFERRED PROJECTS	3,703,100

IMPLEMENTATION OF GRAMM-RUDMAN

Mr. **Green**. I guess in every agency we look at we are going to have the same problem this year, that your aspirations exceed what money is available. The question we all have to ask is how can you effectively trim back in the reduced environment in which we are all going to be operating?

We, in the Congress, have the same thing in terms of our own staffs, people who are doing work which we thought was valuable work we, nonetheless, have to look at because we have got a cut in our payrolls. I guess we have to ask each group that comes here in turn how do you live with it and how do you make it work?

General **Adams**. Mr. Green, we, in effect, have a double whammy here. We are taking the reductions that you have to take and we are also faced with a dramatically decreasing rate of exchange, 22 percent since last July, which is even more significant than Gramm-Rudman and inflation together. Had we been faced only with the Gramm-Rudman cuts and inflation, we may have been able to get by, but now I don't know.

Political Instabilities Abroad

Mr. **Green**. My second question is political instabilities abroad in areas where you are responsible for cemeteries, have they affected your operation at all?

General **Adams**. No, sir, they have not. There was some fairly cold feeling in Tunisia after the release or the bombing or what-not by the Israelis in Tunisia, but it is working out all right.

Mr. **Green**. Panama and the Philippines?

General **Adams**. Philippines, we have had no problems as of yet.

Mr. **Green**. Panama?

General **Adams**. Panama, none as yet.

Mr. **Green**. Thank you, Madam Chairman.

GRAMM-RUDMAN

Mr. **Lewis**. Thank you, Madam Chairman.

I'd like to concur with Mr. Green's comments. As one of those on the Republican side, I voted against Gramm-Rudman in part because I think it is our responsibility to make the tough policy priority decisions. But, we are not faced with that reality. The law now suggests that where the Congress either chooses politically not to bite the bullet or maybe can't raise the majority necessary to do so, there will be an across-the-board sequestration of a few agencies' funding and your agency falls within that category.

No matter how uncomfortable we feel about the fact that unfair numbers or percentages of the domestic budget are left on the table, that is the way it is and it is going to be. For the first time in my political experience I am finding people in my office actually saying, well, I guess we are going to have to do X or Y, things they never considered doing, and that message has to go back to the agencies, too.

It is a difficult, difficult time. I don't have specific questions because I must say this deficit consideration is so much more overwhelming.

I think we are going to get to the point, of making the tough choices but the Congress, and the House especially, is not making these decisions for us at this moment and there is going to be sequestration ahead of us. So it will be an arbitrary sort of thing and then suddenly we will be faced with the reality. You might as well get your staff people who aren't focusing yet to realize it *is* going to be part of our reality.

That is commentary, not a question.

Thank you, Madam Chairman.

KOREAN WAR MEMORIAL

Mrs. **Boggs**. Thank you.

As someone else on the other side who voted against Gramm-Rudman, you have my sympathy. We also have a little curiosity about this. In fiscal year 1980—

General **Adams**. 1980?

Mrs. **Boggs**. 1980. Before our time, right?

The Congress appropriated annual funds in the amount of $7,603,000, of which $40,000 was to remain available until expended. At this time, are you still carrying over $39,000?

General **Adams**. We have $39,000.

Mrs. **Boggs**. Do you have any plans for these funds?

Colonel **Badger**. We hope to, yes. We are examining right now the various monies that need to be used for commemoration. Our biggest goal is to start work on the design of the Korean War memorial. However, because of the vast sum of funds required, we do not intend at this time to use the $39,000 for it. It could be used for that purpose later..

Mrs. **Boggs**. Did you request design funds for the Korean memorial from OMB this year?

General **Adams**. Yes, we did. It was denied, of course.

Mrs. **Boggs**. What progress has the National Committee for the Korean War Memorial, referenced on page 6 of last year's hearings, made in soliciting funds?

Colonel **Ryan**. The last figures I had were as of July of last year. They had collected in excess of $800,000, and they had $2000 in the bank. So that does not appear to be the way to go.

Mrs. **Boggs**. Last year the subcommittee included language in your appropriation which exempted you from Section 409. Have you, in the fiscal year 1986 to date, reprogrammed funds from personnel services to any other object classification?

Colonel **Ryan**. No, Ma'am. We are transferring them the other way.

CHANGES IN INDIVIDUAL CEMETERY BUDGETS

Mrs. **Boggs**. OK.

Last year's budget hearings indicated that the memorial at the Corozal American Cemetery was complete. This year's budget indicates an actual fiscal year 1985 obligation of $376,044 compared to last year's projections of $237,000. This is an increase of almost 59 percent.

What was the reason for the increase?

Colonel **Badger**. We used some of the funds that were available because of the favorable exchange rate. A contract was let for a sprinkler system at Corozal. Every year during the dry season down there, all of our grass turns brown. The project amounted to $156,000 and it is under construction.

Mrs. **Boggs**. On page 11 of your justification, you show an actual obligation in fiscal year 1985 of $92,979 for Mexico City. That is almost 90 percent more than what you estimated last year for fiscal year 1985. What was the reason for this increase?

Colonel **Badger**. Again, due to the favorable exchange rates, we were able to install a simple sprinkler system in Mexico. Also, we installed an air condition system there because of the smog, heat, and the foul weather; we replaced the rusting steel windows with aluminum; and constructed a small carport behind the quarters.

General **Adams**. Also, we renovated the quarters.

Mrs. **Boggs**. Your current fiscal year 1986 budget estimates for specific cemeteries and offices are less than what you estimated last year with the following exceptions: The Washington office, the Paris office, Brookwood, Lorraine, North Africa and Mexico City. What are the reasons for these increases?

Colonel **Badger**. Brookwood, Lorraine, North Africa—what was the fourth?

Mrs. **Boggs**. Mexico City, Washington and Paris.

Colonel **Badger**. At Brookwood we plan to clean the chapel in 1986. It is a World War I memorial whose stone has not been cleaned in a long, long time. It is badly discolored. The cost is $23,000. At Lorraine we plan to extend the automatic sprinkler system for $15,000.

At North Africa, actually I believe there is little or no increase there. Most of the work was simply minor projects. The same would be true in the Washington and Paris office.

Mrs. **Boggs**. Mexico City?

Colonel **Badger**. We have a small project to repair the wall there for $6,000. I am not sure we will be able to accomplish it.

FISCAL YEAR 1987 REQUEST

Mrs. **Boggs**. Your fiscal year 1987 request for cemeteries and offices shows slight increases over your current fiscal year 1986 estimates for the most part. However, five locations show increases of more than 20 percent.

They are Ardennes, 27 percent; Cambridge, 25 percent; Epinal, 54 percent; Henri-Chapelle, 21 percent; and Florence, 27 percent.

Why are you requesting such large increases for these locations?

General **Adams**. Well, in Ardennes, a new well is needed. In Cambridge, the walk along the Walls of the Missing has deteriorated. We will have to replace the walk.

In Epinal, we are replacing the sprinkler system and renovating the flag poles and the flag pole base. In Florence, we simply made a mistake there and did not allow sufficient funds to pay their people in the 1986 budget.

So we will have to find additional funds to pay them this year.

Colonel **Ryan**. One other thing is the $466,000 sequestration is reflected in those figures. In other words, we are not doing in 1986

$466,000 of things we had planned to do, so it makes the gap between years of some of the cemeteries larger.

Colonel **Badger**. I believe there is one other in Henri-Chapelle. You have two projects there that were deferred for 1986 and that was to reconstruct the steps to the burial area and to reconstruct the entrance walls. It might be worth noting last year we testified as far as the increases for Ardennes, Cambridge and Epinal, the projects at that time were in the 1986 program and that caused the budgets for these cemeteries to increase.

All of these projects were switched from 1986 to 1987 so the budgets again appear to be high for these three cemeteries.

HOME LEAVE

Mrs. **Boggs**. Your fiscal year 1987 budget requests a 30 percent increase in travel, object class 21, over the fiscal year 1986 request; a 31 percent increase in equipment, object class 31; and a 157 percent increase in lands and structures, object class 32.

What accounts for such large increases in these accounts?

Specifically, how does the $99,000 requested for home leave compare with your fiscal year 1985 actual and current estimate for fiscal year 1986?

Colonel **Ryan**. In 1987, $99,000 are programmed for home leave. If you will remember, we just started allowing our personnel to go on home leave every two years rather than three years. This is causing the increase. This year, 1987, everybody who is authorized or eligible to go has said they plan to. As their decision must be made a year or so in advance, we don't have much choice but to go ahead and program it.

Any excess funds will be used for things we have had to defer.

Mrs. **Boggs**. In previous years you have provided a break-out for object class 32. For the record, please do the same for your current fiscal year 1986 estimate and for the 1987 request.

[The information follows:]

Fiscal year 1986 improvement projects

Minor improvements, all	$60,000
Extend automatic sprinkler, Lorrain	15,000
Fill parking lot ditches, Normandy	9,000
Constr new storage bldg, Normandy	11,000
Instl heat in memorial, Suresnes	9,000
Renovate both kitchens, Brittany	11,000
Enlarge office, Normandy	15,000
Enclose storage area, Corozal	20,000
Replace wooden benches, East Coast Memorial	13,000
Total	163,000

Fiscal year 1987 improvement projects

Minor improvements, all	$75,300
Drill & Instl new well, Ardennes	70,000
Rewire Asst Supt's quarters, Cambridge	3,000
Repl visitors bldg windows, Cambridge	9,000
Rewire qtrs & visitors bldg, Epinal	14,000
Improve surveillance at parking lot, Normandy	50,000
Instl automatic sprinklers, Epinal	80,000
Extend parking, Paris office	10,000
Constr road to compost area, Suresnes	9,000

Instl storm windows both qtrs. Luxembourg	7,000
Instl storm windows both qtrs. Lorraine	13,000
Replace hooks for slate roof both qtrs. Brittany	6,000
Repl Memorial lighting. Epinal	5,000
Instal sprinklers Ph I of II. Aisne-Marne	35,000
Rehab chapel interior. Corozal	34,700
Total	$421,000

Mrs. Boggs. I would like to thank all of you for the really splendid job that you do. I know what pride I always feel when I have the opportunity to visit any of your establishments abroad and it makes me very proud of being an American. I know that it has given you a great deal of satisfaction to be able to bring the various sites up to the kind of condition you have and to be able to have the maintenance that you have been able to provide in the last couple of years.

General **Adams.** We certainly appreciate those kind words, Mrs. Boggs, and we hope you will take the opportunity to visit as many of them as you can. I would like to show you a couple of photographs.

We mentioned last year we are in the process of landscaping the Saipan Monument. It is complete and I would like to show you photographs of "before" and "after."

Mr. **Boland.** General Adams, you are the only agency who will come before us who will agree the Gramm-Rudman-Hollings bill won't have any effect upon you at all? Well, anyway, we are glad to have you.

I must say I have read your statement. I am sorry I was not here to start this off, but I have had about 40 constituents outside that I have to see during an election year anyhow.

Who has not been here before?

General **Adams.** All of us have been here.

Mr. **Boland.** Anyway, Mrs. Boggs is right about the American Battle Monuments Commission. I think it is an extraordinary job, and the pictures that you bring back, and also pictures that some of the members have brought back from visitations they had made over the years, of course, gives positive proof that this Commission does an extraordinarily good job in preserving the cemeteries and monuments that come under its jurisdiction.

So we are glad to have you, and I said to Mrs. Boggs, everything you ask for you are going to get.

Glad to have you and thank you so much for coming.

[The justification follows:]

AMERICAN BATTLE MONUMENTS COMMISSION

Budget request for Fiscal 1987

Submitted to the Appropriations Subcommittee for the Department of Housing and Urban Development and Independent Agencies, 2d Session, 99th Congress of the United States.

February 1986

AMERICAN BATTLE MONUMENTS COMMISSION

FISCAL 1987 BUDGET REQUEST

SALARIES AND EXPENSES

Page No.

I GENERAL STATEMENT. 1-2

II FINANCIAL AND PERSONNEL STATEMENTS

1. Lead Off Tabular Statement 3
2. Statement of Personnel 4
3. Statement of Increases and Decreases by Activity 5
4. Statement of Increases ad Decreases by Object Classification 6

III DISCUSSION OF CHANGES

1. By Activity. 7-8
2. By Object Classification 9-10

IV MISCELLANEOUS

1. Cemetery/Office Annual Budgets 11
2. Proposed Appropriation Language Changes. 12
3. Other Information. 13-18

GENERAL STATEMENT

The principal functions of the American Battle Monuments Commission (ABMC) are to commemorate the achievements and sacrifices of United States Armed Forces where they have served since April 6, 1917 through the erection and maintenance of suitable memorial shrines; to design, construct, administer and maintain permanent American military burial grounds in foreign countries; to control the design and construction on foreign soil of U.S. military monuments and markers by other U.S. citizens and organizations, both public and private; and to encourage U.S. government agencies and private individuals and organizations to maintain adequately the monuments and markers that were erected by them on foreign soil.

In the performance of these functions, ABMC administers, operates and maintains twenty-four permanent American military cemetery memorials and fourteen separate monuments in eleven foreign countries and the Commonwealth of the Northern Mariana Islands and four memorials here in the United States. These cemeteries and memorials are the most beautiful and meticulously maintained shrines of their nature in the world. No others combine such fitness of design, beauty of landscaping and memorial features and immaculate care. Interred in the cemeteries are 124,910 U.S. War Dead -- 30,920 of World War I, 93,240 of World War II and 750 of the Mexican War. Additionally, 6,407 American veterans and others are interred in the Mexico City and Corozal Cemeteries. The World War and Mexico City Cemeteries are closed to future burials except for the remains of U.S. War Dead still to be found from time to time in the World War I and II battle areas. In addition to burials, the World War I and II cemeteries, together with three memorials on U.S. soil, commemorated individually by name on Tablets of the Missing, the 94,092 U.S. servicemen and women who were Missing in Action or lost or buried at sea in their general region during the World Wars, and the Korean and Vietnam Wars.

The upgrading of the physical features of the Corozal American Cemetery and Memorial in Panama is complete except for renovation of the chapel and office and installation of grass in the graves area that will thrive and maintain its appearance in the hot and humid climate that prevails there. The improvement in the appearance of the cemetery as a result of the upgrading is remarkable. Every American can be extemely proud of this representation of the United States of America in the Republic of Panama.

Adequate care of these shrines to American War Dead requires that a sizable annual program of repair and maintenance of facilities and equipment, and grounds maintenance. This care includes upkeep of 131,000 graves and headstones; 44 memorial structures; 41 quarters; utilities and maintenance facilities; 67 miles of asphalt roads and paths; 909 acres of flowering plants, fine lawns and meadows; shrubs and hedges with a surface area of 3,000,000 square feet; and 11,000 ornamental trees. Estimated replacement costs are $240,120,000. All of the plantings including the lawns and meadows must be cut or shaped, fed and treated with insecticides and fungicides at regular intervals during the growing season. The plantings also must be replaced when they exhaust their useful life or receive major storm damage.

The reduction of $576,000 in the Commission's fiscal 1986 Appropriation imposed by Public Laws 99-166 and 99-177 and an average 16% reduction since July 1985 in the value of the U.S. dollar in Europe are impacting most harshly upon the care and maintenance that the Commission is able to provide its shrines. Unless there is some strengthening of the dollar, repairs and construction will have to be limited to those of an emergency nature; equipment replacement will have to be curtailed severely; and the cutting of grass, cleaning of headstones and leveling of grave plots during the peak growing period will have to be performed at much greater intervals, as a good portion of this type of work during the peak growing period is performed by casual labor, for which necessary funds will not be available. The erosion of care and maintenance brought about by inadequate funds in fiscal 1986 in turn will alter planned maintenance and repair projects for fiscal 1987, as first it will be necessary to correct deficiencies incurred the previous year.

In addition to its other activities, the Commission provides information and assistance on request to relatives and friends of the War Dead interred in or commemorated at its facilities. These services include providing or confirming burial and memorialization information; providing letters authorizing fee-free passports for members of the immediate family travelling overseas primarily to visit the cemetery; providing travel and accommodation information; placing floral decorations at grave or memorial sites utilizing funds furnished by the donor; providing each donor with a color polaroid photograph of the floral decoration in place, weather permitting; furnishing a color lithograph of the cemetery or memorial where a serviceman or woman is buried or commemorated by name; and a photograph of the appropriate headstone or section of the Tablets of the Missing to relatives; and escorting relatives to the grave or memorial site within the cemetery.

This appropriation request is submitted pursuant to the Act of March 4, 1923, 42 Stat. 1509, as amended. (36 U.S.C. 138a)

LEAD OFF TABULAR STATEMENT

SALARIES AND EXPENSES

	Amount (in thousands)	Authorized Full-Time Equiv	Average Employment
1. Fiscal 1985 Appropriation	11,065	387	387
2. Fiscal 1986 Appropriation	10,954	387	387
Reduction pursuant to P.L. 99-160	- 120	...	...
Reduction pursuant to P.L. 99-177	- 466	...	...
Adjusted 1986 Appropriation	10,368	387	387
Difference from 1985	- 697	...	...
3. Fiscal 1987 Appropriation Request	11,673	387	387
Difference from 1986	1,305	...	...

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STATEMENT OF PERSONNEL

	1985 Actual	1986 Estimate	1987 Estimate
Total number of full-time permanent positions	387	387	387
Total compensable Work Years, FTE	387	387	387
Full-time equivalent (FTE) of overtime and holiday pay	4	4	4
Average GS grade	8.04	8.34	8.34
Average GS salary	22,626	23,862	23,920
Average salary of ungraded positions	8,892	10,564	11,769

STATEMENT OF

INCREASES AND DECREASES BY ACTIVITY

(in thousands)

	Administration and U.S. Memorials	European Cemeteries and Memorials	Mediterranean Cemeteries and Memorials	Asian Cemeteries and Memorials	Latin Cemeteries and Memorials	Lapse	Totals
1. Fiscal 1985 appropriation	737	7,787	1,408	604	469	60	11,065
2. Fiscal 1986 amended appropriation	754	7,404	1,342	585	283	...	10,368
change from 1985	+ 17	- 383	- 66	- 19	-186	-60	- 697
3. Fiscal 1987 appropriation	763	8,356	1,602	650	302	...	11,673
change from 1986	+ 9	+ 952	+ 260	+ 65	+ 19	...	+ 1,305

For additional information see:

1/ page 7, 2/ page 7, 3/ page 7, 4/ page 8 & 5/ page 8

STATEMENT OF

INCREASES AND DECREASES BY OBJECT CLASSIFICATION
(in thousands)

	11	12	13	21	22	23	24	25	26	31	32	42	Lapse	Total
Fiscal 1985 Appropriation	5,501	1,564	42	111	80	400	40	715	890	578	1,082	2	60	11,065
Fiscal 1986 Amended	5,890	1,704	57	143	94	519	22	679	801	296	163	...	...	10,368
Appropriation changes from 1985	+ 389	+ 140	+ 15	+ 32	+ 14	+119	-18	- 36	- 89	-282	-919	- 2	- 60	- 697
Fiscal 1987 Appropriation	6,460	1,878	74	186	107	536	24	698	901	388	421	...	...	11,673
changes from 1986	+ 570	+ 174	+ 17	+ 43	+ 13	+ 17	+ 2	+ 19	+100	+ 92	+258	...	...	+ 1,305

For additional information see:

1/ page 9, 2/ page 9, 3/ page 9, 4/ page 9, 5/ page 10, 6/ page 10, 7/ page 10.

CHANGES BY ACTIVITY

The American Battle Monuments Commission's Fiscal 1987 Appropriation request provides $11,673,000 to administer, operate and maintain 24 permanent American military burial grounds and 18 separately located monuments and memorials in twelve countries around the world, $1,305,000 more than fiscal 1986. Despite the increase, reductions imposed by the Gramm-Rudman-Hollings legislation, continually falling dollar exchange rates and inflation in the countries where our installations are located may very well reduce the purchasing power of the 1987 Appropriation request below that of the austerely amended fiscal 1986 Appropriation. Increases in the 1987 Appropriation are as follows: $761,000 for personnel compensation and benefits; $43,000 for travel of persons to include permanent changes of station and home leave; $17,000 for rent, communications and utilities; $2,000 for printing and reproduction; $277,000 for construction and maintenance of grounds, utilities and facilities and $205,000 for the purchase of supplies, equipment and spare parts and the transportation thereof.

Administration and U.S. Memorials. $763,000 are requested to administer Commission operations worldwide and maintain four memorials in the United States during fiscal 1987, $9,000 more than the reduced fiscal 1986 Appropriation. Increases in the request are $14,000 in personnel salaries and benefits; $1,000 for the transportation of persons; $1,000 for communication; $2,000 for printing; $6,000 for contractual maintenance and repairs and $1,000 for supplies. Offsetting the increases in part is a decrease of $16,000 in capital improvements.

European Cemeteries and Memorials. $8,356,000 are requested for the administration, operation and maintenance of 18 World War I and II permanent American military burial grounds and 12 separately located monuments in Belgium, England, France, Luxembourg and The Netherlands during fiscal 1987, $952,000 more than the reduced fiscal 1986 Appropriation. Increases are $484,000 in personnel salaries and benefits; $35,000 in operational travel and home leave; $15,000 in communications, rent and utilities; $1,000 in printing; $173,000 in the procurement of supplies, materials, equipment and spare parts and the transportation thereof; and $244,000 in capital improvements.

Mediterranean Cemeteries and Memorials. $1,602,000 are requested in for the administration, operation and maintenance of 3 World War II permanent American burial grounds and 1 separately located World War I monument in Italy, North Africa and Gibralter during fiscal 1987, $260,000 more than the reduced fiscal 1986 Appropriation Increases are $214,000 for personnel salaries and benefits, and the benefits of former personnel; $21,000 for the procurement of supplies, equipment, spare parts and the trnsportation thereof; and $31,000 for construction and contractual maintenance and repairs. Offsetting the increases in part is a decrease of $6,000 in rent, communications and utilities.

Asian Cemeteries and Memorials. $650,000 are requested for the administration, operation and maintenance of the Manila American Cemetery and Memorial in the Republic of the Philippines and the Saipan Monument in the Northern Marianas Islands, $65,000 more than the reduced fiscal 1986 Appropriation. Increases are $46,000 in personnel salaries and benefits; $4,000 in travel and transportation of persons including home leave; $6,000 in communications and utilities; $3,000 in supplies, materials and spare parts; and $6,000 in the replacement of worn-out equipment.

Latin Cemeteries and Memorials. $302,000 are requested for the administration, operation and maintenance of the Corozal American Cemetery and Memorial in the Repbulic of Panama and the Mexico City American Cemetery and Memorial in Mexico, $19,000 more than the reduced fiscal 1986 Appropriation. The increases are $3,000 in personnel salaries and benefits; $3,000 in travel of persons including home leave; $1,000 in supplies, materials, equipment and spare parts; and $12,000 in construction and contractual maintenance and repairs.

2L

CHANGES BY OBJECT CLASSIFICATION

This appropriation request for fiscal 1987 provides $11,673,000 for American Battle Monuments Commission operations in twelve countries, $1,305,000 more than the fiscal 1986 Appropriation as amended. A comparison of the two fiscal years by object classification is shown below:

11 Personnel Compensation. $6,460,000 are requested for the salaries of 6 military, 50 U.S. General Schedule civilian employees and 337 local nationals indigenous to the foreign countries where ABMC installations are located, $570,000 more than fiscal 1986. The additional funds will be used to defray costs of ingrade raises for General Schedule and local national employees, the full year application of 1986 local national employee pay raises, and the large deficit resulting from falling dollar exchange rates.

12 Personnel Benefits. $1,878,000 are requested for personnel benefits and allowances of U.S. and local national employees, $174,000 more than fiscal 1986. These benefits and allowances are authorized by U.S. federal law, the laws of the foreign countries where ABMC installations are located, or by treaty agreements between the U.S. Federal government and the host countries. The benefits are: U.S. social security, $20,800; G.S. Medicare tax, $11,400; G.S. group life insurance, $3,500; local national life insurance, $300; G.S. education allowance, $61,800; G.S. quarters allowance, $39,900; G.S. post allowance, $600; G.S. temporary lodging, $9,800; G.S. health insurance, $91,300; G.S. retirement, $83,700; local national retirement, $135,100; local national health insurance, $8,100; tropical differential, $5,500; local national awards, $3,100; G.S. COLA, $16,700; local national social security, $1,362,500; local national bonuses, $17,000; and family allowance, $6,900.

13 Benefits for Former Personnel. $74,000 are requested for severance pay of employees in Italy, $17,000 more than fiscal 1986. Italian law requires payment of one-months salary for each year of service with an organization on termination of employment, regardless of whether or not the employee is scheduled to receive an annuity from the organization. Two long time employees are scheduled for mandatory retirement in fiscal 1987.

21 Travel and Transportation of Persons. $186,000 are requested for travel and transportation of ABMC employees and dependents of U.S. employees, $43,000 more than fiscal 1986. Of these funds, $15,000 are for meetings and inspections by the appointive members of the Commission, who are charged with supervision of Commission operations; $60,000 for the travel of field personnel in the administration, operation and maintenance of ABMC facilities; $9,000 for the inspection of field operations by the Secretary and staff of the Washington Office; $99,000 for the home leave of 67 employees and their dependents; and $3,000 for for permanent changes of station of U.S. employees and their dependents.

CHANGES BY OBJECT CLASSIFICATION

22 Transportation of Things. $107,000 are requested to transport supplies, materials, spare parts, vehicles and equipment purchased for ABMC use overseas and for the movement of household goods of U.S. employees on permanent changes of station or retiring, $13,000 more than fiscal 1986.

23 Rent, Communications and Utilities. $536,000 are requested for rental of office and garage space; postal, telephone and telegraph service; water, gas, electricity and State Department administrative support, $17,000 more than fiscal 1986. Increase reflects the rising costs of services in the countries where ABMC installations are located and the falling value of the dollar overseas.

24 Printing and Reproduction. $24,000 are requested for printing and reproduction of photographs, cemetery lithographs, cemetery booklets, general information pamphlets, the annual report to the President, blueprints and other materials, $2,000 more than fiscal 1986.

25 Other Services. $698,000 are requested for maintenance and repair of facilities and utilities, $19,000 more than fiscal 1986.

26 Supplies and Materials. $901,000 are requested for plantings and seeds; horticultural, repair and utility, custodial and office supplies; petroleums, oils and lubricants; tires and tubes; and spare and replacement parts for vehicles and equipment, $100,000 more than fiscal 1986.

31 Equipment. $388,000 are requested to replace uneconomically repairable and worn-out vehicles and equipment, $92,000 more than fiscal 1986.

32 Lands and Structures. $421,000 are requested for capital improvements, $258,000 more than fiscal 1986.

ANNUAL BUDGETS

Cemetery/Office	Fiscal 1985	Fiscal 1986	Fiscal 1987
Washington Office	737,063	754,000	763,000
Paris Office	1,227,995	1,399,626	1,585,995
Aisne-Marne	439,853	363,782	377,841
Ardennes	440,911	419,513	534,592
Brittany	288,014	300,348	320,375
Brookwood	61,923	88,669	79,227
Cambridge	257,789	252,683	317,842
Epinal	290,648	282,797	435,578
Flanders Field	158,763	157,920	182,107
Henri-Chapelle	467,523	389,429	474,125
Lorraine	766,604	610,688	685,745
Luxembourg	284,659	256,340	304,055
Meuse-Argonne	557,517	669,359	676,815
Netherlands	529,235	447,620	504,650
Normandy	859,493	621,604	635,733
Oisne-Aisne	344,422	305,205	310,759
Rhone	213,125	176,997	199,420
Somme	191,403	168,172	192,806
St. Mihiel	251,200	236,262	256,742
Suresnes	155,916	256,492	281,393
Rome Office	283,939	298,486	342,466
Florence	446,678	377,164	479,760
North Africa	255,719	220,747	265,924
Sicily-Rome	421,518	445,603	513,850
Asian Office/Manila	604,041	585,000	650,000
Latin Office/Corozal	376,044	228,000	243,000
Mexico City	92,979	55,000	59,000
TOTAL	11,004,974	10,367,506	11,673,000

PROPOSED APPROPRIATION LANGUAGE CHANGE

Request the following change be made in the Commission's Appropriation language for Fiscal 1986:

Change appropriation for Salaries and Expenses from $10,834,000 to $11,673,000.

ABMC INSTALLATIONS

Name and Location	No. of Burials	Missing Memorialized	No. of Acres	No. of Employees	Highest Grade
U.S. Installations					
Washington Office	...	...	...	7GS,4mil	MG
American Expenditionary Force Monument Pershing Park, Washington, DC	...	...	0.1	...	...
East Coast Memorial, New York City, New York (9)	...	4,596	0.8	...	...
Honolulu Memorial, Honolulu, Hawaii (10)	...	28,777	1.0	...	...
West Coast Memorial, Presidio of San Francisco, California (11)	...	414	1.3	...	...
European Installations					
Paris Office	...	...	...	5GS,27LN,1mil	GS-15
Aisne-Marne American WWI Cemetery and Memorial, Belleau, Aisne, France	2,288	1,060	282.5	1GS,12LN	GS-8
Ardennes American WWII Cemetery and Memorial, Neupre, Belgium	5,327	462	90.5	2GS,16LN	GS-9
Audenarde Monument, Audenarde, Belgium (1)	...	...	0.4	...	...
Bellicourt Monument, St. Quentin, Aisne, France (2)	...	...	1.8	...	...
Brest Monument, Brest, Finistere, France (3)	...	...	1.0	1LN	...
Brittany American WWII Cemetery and Memorial, St. James, Manche, France	4,410	497	27.5	2GS,9LN	GS-8

Name and Location	No. of Burials	Missing Memorialized	No. of Acres	No. of Employees	Highest Grade
Brookwood American WWI Cemetery and Memorial, Brookwood, England (4)	468	563	4.5	1GS,2LN	...
Cambridge American WWII Cemetery and Memorial, Cambridge, England	3,811	5,126	30.5	2GS,11LN	GS-9
Cantigny Monument, Cantigny, Somme, France (2)	...	...	0.4	1LN	...
Chateau-Thierry Monument, Chateau-Thierry, Aisne, France (5)	...	...	28.0	1LN	...
Epinal American WWII Cemetery and Memorial, Epinal, Vosges, France	5,255	424	46.0	2GS,11LN	GS-8
Flanders Field American WWI Cemetery and Memorial, Waregem, Belgium	368	43	6.0	1GS,5LN	GS-8
Henri-Chapelle American WWII Cemetery and Memorial, Henri-Chapelle, Belgium	7,989	450	57.0	2GS,16LN	GS-9
Kemmel Monument, Ypres, Belgium (1)	...	...	0.2	...	...
Lorraine American WWII Cemetery and Memorial, St. Avold, Moselle, France	10,489	444	114.0	2GS,19LN	GS-10
Luxembourg American WWII Cemetery and Memorial, Luxembourg	5,076	370	50.6	2GS,11LN	GS-9
Meuse-Argonne American WWI Cemetery and Memorial, Romagne-sous-Montfaucon, Meuse, France	14,246	954	130.5	2GS,26LN	GS-11
Montfaucon Monument, Montfaucon, Meuse, France (6)	...	...	9.0	1LN	...
Montsec Monument, Thiaucourt, Meurthe and Moselle, France (7)	...	...	45.0	1LN	...

30

Name and Location	No. of Burials	Missing Memorialized	No. of Acres	No. of Employees	Highest Grade
Netherlands American WWII Cemetery and Memorial, Margraten, Netherlands	8,301	1,722	65.5	2GS,17LN	GS-10
Normandy American WWII Cemetery and Memorial, St. Laurent, Calvados, France	9,386	1,557	172.3	2GS,20LN	GS-11
Oise-Aisne American WWI Cemetery and Memorial, Fere-en-Tardenois, Aisne, France	6,012	241	36.5	1GS,12LN	GS-9
Pointe du Hoc Monument, Cricqueville-en-Bessin, Calvados, France (14)	...	...	31.0	...	...
Rhone American WWII Cemetery and Memorial, Draguignan, Var, France	861	293	12.0	1GS,6LN	GS-8
Somme American WWI Cemetery and Memorial, Bony, Aisne, France	1,844	333	14.3	1GS,5LN	GS-8
Sommepy Monument, Sommepy, Marne, France (6)	...	...	15.0	...	...
St. Mihiel American WWI Cemetery and Memorial, Thiaucourt, Meurthe, France	4,153	284	40.3	1GS,9LN	GS-8
Suresnes American WWI Cemetery and Memorial, Suresnes, Seine, France	1,565(12)	974	7.5	1GS,5LN	GS-8
Tours Monument, Tours, Indre-et-Loire, France (3)	...	...	0.5	...	...
Utah Beach Monument, Ste Marie du Mont, Calvados, France (14)	...	...	0.5	...	...
Mediterranean Installations					
Rome Office	...	...	...	6LN,1mil	COL
Florence American WWII Cemetery and Memorial, Florence, Italy	4,402	1,409	70.0	2GS,15LN	GS-9

Name and Location	No. of Burials	Missing Memorialized	No. of Acres	No. of Employees	Highest Grade
Gibraltar Monument, Gibraltar(8)	...	...	0.1	...	...
North Africa American WWII Cemetery and Memorial, Carthage, Tunisia	2,841	3,724	27.0	2GS,12LN	GS-8
Sicily-Rome American WWII Cemetery and Memorial, Nettuno, Italy	7,862	3,095	75.0	2GS,15LN	GS-9
Asian Installation					
Asian Office/Manila American WWII Cemetery and Memorial, Luzon, Philippines	17,206	36,280	152.0	2GS,37LN	GS-12
Saipan Monument, Saipan, Northern Mariana Islands (15)	...	...	0.1	...	...
Latin Installations					
Latin Office/Corozal American Cemetery, Canal Zone, Panama	4,829	...	16.0	1GS,7LN	GS-9
Mexico City National Cemetery, Mexico City, Mexico	1,563(13)	...	1.0	1GS,1LN	GS-7
Total	130,552	94,092	1,665.2	50GS,337LN,6mil	MG

(1) Satellited on Flanders Field Cemetery for care

(2) Satellited on Somme Cemetery for care

(3) Satellited on Brittany Cemetery for care

(4) Satellited on Cambridge Cemetery for care

(5) Satellited on Aisne-Marne Cemetery for care

(6) Satellited on Meuse-Argonne Cemetery for care

(7) Satellited on St. Mihiel Cemetery for care

(8) Satellited on City of Gibraltar for day to day care

(9) Satellited on City of New York for day to day care

(10) Satellited on National Memorial Cemetery of the Pacific for day to day care

(11) Satellited on Presidio of San Francisco for day to day care

(12) Includes 24 Unknowns of World War II

(13) Includes 813 non War Dead

(14) Satellited on Normandy Cemetery for care

(15) Satellited on Manila Cemetery for care

(16) Satellited on National Park Service

33

FY 85 VISITORS TO ABMC
CEMETERIES, MONUMENTS AND MEMORIALS

U.S. Installations:		
East Coast Memorial	810,000	3,060,000
Honolulu Memorial	2,250,000	
European Installations:		8,736,176
Aisne-Marne Cemetery	165,535	
Ardennes Cemetery	82,661	
Brittany	284,955	
Brookwood	8,620	
Cambridge	201,410	
Epinal	61,288	
Flanders Field	21,963	
Henri-Chapelle	1,103,741	
Lorraine	308,257	
Luxembourg	629,897	
Meuse-Argonne	75,193	
Netherlands	2,443,717	
Normandy	1,819,268	
Oise-Aisne	21,241	
Rhone	21,041	
Somme	8,518	
St. Mihiel	9,716	
Suresnes	19,155	
Pointe du Hoc	1,504,350	

Mediterranean Installations:		450,079
Florence Cemetery	62,861	
North Africa Cemetery	37,895	
Sicily-Rome Cemetery	349,323	
Asian Installations:		278,427
Manila Cemetery	278,427	
Latin Installations:		13,484
Corozal Cemetery	12,925	
Mexico City Cemetery	559	

TOTAL FY 1985 VISITORS: 12,538,166

34

WEDNESDAY, FEBRUARY 19, 1986.

CEMETERIAL EXPENSES, DEPARTMENT OF THE ARMY

WITNESSES

RAY COSTANZO, SUPERINTENDENT, ARLINGTON NATIONAL CEMETERY
RAY PETTIS, DIRECTOR, RESOURCE MANAGEMENT DIRECTORATE, OFFICE OF THE ADJUTANT GENERAL
JULIUS SMITH, PROJECT ENGINEER, ARLINGTON NATIONAL CEMETERY
RORY SMITH, BUDGET ANALYST, ARLINGTON NATIONAL CEMETERY
LT. COL. KENNETH DUNN, MILITARY ASSISTANT TO THE ASSISTANT SECRETARY OF THE ARMY (CIVIL WORKS)

Mr. **BOLAND**. We will now turn to the Arlington National Cemetery and the National Soldiers Home. We are delighted to welcome Ray Costanzo, who is Superintendent of the Arlington National Cemetery, who has been before this committee a number of times. Ray Pettis, Director of Resource Management has been here before, and Mr. Julius Smith has been here before.

Rory Smith, you are new, are you not?

Mr. **RORY SMITH**. Yes, sir.

Mr. **BOLAND**. Glad to have you.

How long have you been with them now?

Mr. **RORY SMITH**. Just eight months.

Mr. **BOLAND**. I think you will enjoy it.

Lieutenant Colonel Kenneth Dunn, I think it was wise putting a Massachusetts man on. You are from Bedford originally?

Colonel **DUNN**. Yes, sir.

OPENING REMARKS

Mr. **BOLAND**. Let me say you have one tremendous background. It is replete with extensive service with the United States Government. You are a graduate of Boston University. That is a favorable, let me say. That will get you nothing here.

We are glad to have you, Ray. Why don't you go ahead and tell us what you want and how the Gramm-Rudman-Hollings is impacting you. Everyone will talk about that this year.

Mr. **COSTANZO**. Mr. Chairman, members of the committee, good morning.

With your approval, I will summarize my opening statement and submit my full statement for the record. I won't introduce my staff. You have already done that for me, sir. Thank you.

As you know, Mr. Chairman, Arlington National Cemetery is the premier national shrine honoring this nation's veterans and war dead. In fiscal year 1985 there were 2,876 burials and 1,028 interments. This included 74 general and flag officers. In fiscal year 1986 and fiscal year 1987, the burial and interments are predicted to be 3,950 and 4,035, respectively.

Arlington National Cemetery has approximately 3.5 million visitors annually, second in the National Capital Region only to the Smithsonian Institution as the most visited site.

In 1985, ten foreign heads of State and the Prince and Princess of Wales visited the Cemetery. There were 1,885 non-funeral ceremonies at the Tomb of the Unknown Soldier, approximately 1,900 non-funeral events are projected for fiscal year 1987.

For fiscal year 1987, we are requesting $15,783,000, an increase of $1,168,000 above the amount approved for fiscal year 1986. The increase consists of $724,000 in construction and $444,000 for operation and maintenance.

The key item in this request are funds for the construction of the parking facility associated with the new visitors center. Funds to construct the permanent visitors' center were approved by the Congress in fiscal year 1986.

The construction is planned to begin in July of 1986. Included in our fiscal year 1987 request is $9,082,000 for an associated parking facility. Construction is planned to begin in late 1986.

The scheduled opening for the new visitors center and parking facility is December of 1987.

Finally, sir, the dollar amounts shown for the fiscal year 1986 column in the budget justification do not reflect the impact of the Balanced Budget and Emergency Deficit Control Act, Public Law 99-177.

Mr. Chairman, this concludes my remarks, and we will be pleased to respond to your questions at this time.

[The statement of Mr. Costanzo and biographies follow:]

STATEMENT BY

MR. RAYMOND J. COSTANZO

SUPERINTENDENT, ARLINGTON NATIONAL CEMETERY

DEPARTMENT OF THE ARMY

BEFORE THE

SUBCOMMITTEE ON HOUSING AND URBAN DEVELOPMENT

AND OTHER INDEPENDENT AGENCIES

COMMITTEE ON APPROPRIATIONS

HOUSE OF REPRESENTATIVES

SECOND SESSION, 99TH CONGRESS

CEMETERIAL EXPENSES, ARMY

19 FEBRUARY 1986

Mr. Chairman, Members of the Committee
Good Morning

Thank you for the opportunity to testify today in support of the Fiscal Year 1987 appropriation request for Cemeterial Expenses, Department of the Army. I have with me today Mr. Ray Pettis, Director, Resource Management, Office of The Adjutant General; and LTC Ken Dunn, Military Assistant to the Assistant Secretary of the Army for Civil Works, Mr. Julius Smith, Project Engineer, and Mr. Rory Smith, Budget Analyst, all of Arlington National Cemetery. We are appearing on behalf of the Secretary of the Army, who is responsible for Arlington and Soldiers' and Airmen's Home National Cemeteries. The funds provided through this appropriation will finance operation at both cemeteries.

For Fiscal Year 1987 we are requesting $15,783,000, an increase of $1,168,000 above the amount approved for FY 1986. The increase consists of $724,000 in construction and $444,000 for operation and maintenance.

Funds to construct the permanent Visitors Center were approved by the Congress in the Fiscal Year 1986 appropriation, and construction is planned to begin in July 1986. Included in our FY 1987 request is $9,082,000 for an associated parking facility, and construction is planned to begin in late 1986.

The $444,000 increase in operation and maintenance will provide the minimum essential funds required to bring Arlington National Cemetery up to the maintenance standards expected at this national shrine. These funds will provide for the full employment of 142 work years, upgrading the maintenance of the buildings and grounds, and provide the necessary supplies and equipment.

Arlington National Cemetery is this Nation's most prestigious and principal shrine. It is a visible reflection of America's appreciation for those who have made the ultimate sacrifice to maintain our freedom. In addition to the thousands of funerals held there each year--accompanied by military honors--hundreds of nonfuneral ceremonies honoring those whose remains are interred/inurned within the confines of this cemetery are conducted as well. Thousands of citizens, as well as American and foreign dignitaries, visit Arlington to participate in these solemn events. The President of the United States and the Prince and Princess of Wales attended the 1985 Veterans Day ceremonies. During FY 1985, Arlington National Cemetery played host to over 3.5 million visitors, including 10 foreign heads of State. It is second only to the Smithsonian Institution as the most visited public facility in the National Capital Region. In FY 1985 there were a total of 3,904 interments and inurnments.

The second 5,000 niche unit of the Columbarium has recently been completed. Use of the Columbarium has been greater than expected, and current projections forecast the filling of available spaces by 1991. To preclude interruption of inurnment because of time delays in design and construction, funds for design of the next increment will be requested in FY 1988.

Approval of our FY 1987 request will permit us to continue the high standards of maintenance expected at these cemeteries and to construct the parking facility associated with the Visitors Center. We want to thank the Committee for its steadfast suppo in the past for the Visitors' Center. We look forward to your participation in the dedication of the facility when it is completed.

The dollar amounts shown for the FY 1986 column in the budget justification do not reflect the impact of the Balanced Budget and Emergency Deficit Control Act, Public Law 99-177.

Mr. Chairman, this concludes my remarks. We will be pleased to respond to questions from the Committee at this time.

LIEUTENANT COLONEL KENNETH J. DUNN
Biographical Sketch

Lieutenant Colonel (LTC) Kenneth J. Dunn, U.S. Army Corps of Engineers was assigned as the Military Assistant to the Assistant Secretary of the Army (Civil Works) on 12 January 1985.

LTC Dunn will assist the Secretary in his responsibilities as the senior Defense official with oversight responsibility for the Army National Cemeteries, the Army Civil Works Program, and Panama Canal Activities.

LTC Dunn has held numerous responsible command and staff assignments in the United States and overseas. He has commanded engineer units with the 2d Infantry Division on the Republic of Korea and the 18th Engineer Battalion (Combat) in the United States. He was the Engineer Officer with the 29th Civil Affairs Company attached to the 23rd (Americal) Division, Republic of Viet Nam. He was the Operations Officer with the 802d Engineer Battalion (Combat Heavy), Republic of Korea. LTC's Dunn's key staff assignments include service as the Engineer Plans Officer, Headquarters, I Corps, Ft. Lewis, Washington; the Deputy Assistant Director of Civil Works - Environment, Office of the Chief of Engineers, Washington, DC; Corps of Engineers Liaison Officer to the Administrator, Environmental Protection Agency, Washington, DC; and the Secretary of the General Staff, Headquarters, Fort Devens, Massachusetts. LTC Dunn has also served as Area Engineer, U.S. Army Engineer District, Detroit, Michigan, where he was responsible for over 63 million dollars worth of construction projects. Additionally, he has served as Contracting and Operations Officer during several Presidentially Declared Emergency Operations.

LTC Dunn is a 1967 graduate of Boston University with a BS in Engineering Management. He also holds a Masters Degree in Construction Management from The George Washington University, Washington, DC; and a Master of Science in Civil Engineering from Wayne State University, Detroit, Michigan. LTC Dunn is a graduate of the Engineer Officer Advanced Course, Fort Belvoir, Virginia and the Command and General Staff College, Fort Leavenworth , Kansas.

LTC Dunn's decorations include the Meritorious Service Medal with Two Oak Leaf Clusters and the Army Commendation Medal with Five Oak Leaf Clusters.

LTC Dunn is a native of Medford, Massachusetts and is married to the former Debra Reynolds of Winchester, Kansas. They have one daughter, Sheena Erin.

Biographical Sketch
Mr. Rory D. Smith
Budget Analyst
Arlington National Cemetery

Mr. Smith became the Budget Analyst, Arlington National Cemetery on 1 June 1985. Prior to this position, he served as Budget Analyst with the US Army Legal Services Agency, Falls Church, Virginia. He has served as Budget Analyst with the US Army Service Center for the Armed Forces and as a Statistical Assistant with the US Geological Survey.

Mr. Smith was born in Washington, D.C., April 8, 1952, graduated from W.T. Woodson High School, 1972; served in the US Army 1972 - 1974.

BUDGET REQUEST

Mr. **Boland**. Thank you very much, Ray.

Let me just run over the figures, again. Your request is for $15,783,000. That is an increase of $1,796,000 over 1986. The 1986 estimate was $13,987,000 and that includes a sequestration of $628,000, as I understand it.

Mr. **Costanzo**. That is correct.

GRAMM-RUDMAN SEQUESTRATION

Mr. **Boland**. You had 140 permanent positions in 1985; 140 in 1986; and 140 in 1987. So there is no change there. You had 146 FTEs in 1985, and estimate 149 in 1986 and 149 in 1987. You estimate no change from 1987 to 1985.

The President's budget, as I have indicated, shows a Gramm-Rudman sequestration of $628,000 in budget authority and $193,000 in outlays. How do you anticipate administering the sequestration?

Mr. **Costanzo**. I will go down the list and we will address the $628,000, because that is the figure we are working with.

Mr. **Boland**. Yes.

Mr. **Costanzo**. We are going to delete nine workyears of temporary employment, $146,000; maintenance of building will decrease $9,000; headstone realignment, $60,000; tree maintenance, $15,000; the MDW support agreement, $25,000; supplies and materials, $175,000, and equipment, $170,000 for a $600,000 total, and the administration account will decrease $28,000, or one workyear.

VISITORS' CENTER

Mr. **Boland**. Now, in your budget in fiscal year 1985, Congress appropriated $400,000 in design funds for a permanent visitors' center and parking facility. In fiscal year 1986, $8,358,000 was appropriated for construction of the visitors' center. The design for the new facilities was to have been delivered in late 1985.

Is the design complete?

Mr. **Julius Smith**. The design on the visitors' center has been completed. It has been approved by the Commission of Fine Arts. The construction contract will be awarded in June 1986.

Mr. **Boland**. As of this point in time, do you have many bidders?

Mr. **Julius Smith**. It has not been awarded as of this date.

Mr. **Boland**. Is there any indication on the part of bidders that they have an interest in it?

Mr. **Costanzo**. It has not been advertised, so we will not have that information until late May.

Mr. **Julius Smith**. From my past experience, construction projects at Arlington Cemetery receive numerous bidders due to the high visibility and prestige associated with this facility.

Mr. **Boland**. How does the current cost estimate of $8,358,000 compare with your earlier estimates?

Mr. **Julius Smith**. The estimate we have, the $8,358,000, is still a valid estimate and is based on award of the contract in 1986.

Mr. **Boland**. When do you expect completion of the visitors' center?

Mr. **Julius Smith**. December of 1987.

Mr. **Boland**. Last year I think you indicated it would be completed in July of 1987.

Mr. **Costanzo**. That is correct. That was our early prediction, but we had problems attaining approval from the Commission of Fine Arts, which delayed the project.

Mr. **Boland**. Is the visitors' center being affected by sequestration?

Mr. **Costanzo**. We have not planned it at this point in time. We plan to take the entire sequestration in fiscal year 1986 out of the operation and maintenance and administration programs.

PARKING FACILITY

Mr. **Boland**. You also indicated you were requesting $9,082,000 for the parking structure this year. Will you bid this project separately from the visitors' center?

Mr. **Julius Smith**. Yes. The visitors' center and parking facility will be awarded as two separate contracts.

Mr. **Boland**. Will this request complete the necessary funding for the entire project?

Mr. **Julius Smith**. The funds we are requesting will complete funding for the total project.

Mr. **Boland**. If the funds were not appropriated, what would be the impact?

Mr. **Julius Smith**. We couldn't build the parking structure this fall.

Mr. **Boland**. How does that impact upon parking there?

Mr. **Costanzo**. It would be disastrous.

Mr. **Boland**. It won't be disastrous, would it?

Mr. **Costanzo**. Yes, it would, sir. Let me explain.

If we build the proposed visitors'center at the designated location and do not build a parking facility adjacent to it, there would be no place to park vehicles. The old parking facility is located a great distance from the proposed new visitors' center and could not be conviently used by visitors.

Mr. **Boland**. Why wouldn't you want to build the visitors' center and parking structure in concert with each other? It would seem to me as if it would be less costly to do it that way.

Mr. **Pettis**. That was directed by OMB.

Mr. **Boland**. Is there any reason why the construction should not be delayed?

You say that it would be a disaster if this were put off for a little while, but how serious really is that?

Mr. **Costanzo**. We have this beautiful, well-designed, functional visitors' center that could not be used because there would not be any convenient parking available. The Arlington National Cemetery master plan provided for complete separation of visitor traffic from operational traffic. We would therefore continue to have that serious problem if we were forced to use the old parking facility.

Mr. **Boland**. In order to decrease the impact of sequestration upon your budget request, what consideration have you given to charging parking fees for visitors?

Mr. **Costanzo**. That subject has been given some thought. I don't know if we have the legal authority to charge for parking at Arlington National Cemetery. That is something we need to look at.

Mr. **Boland**. What about the parking structure? How many cars do you anticipate parking there?

Mr. **Julius Smith**. 600 cars.

Mr. **Boland**. How many buses? You have the top level, as I understand it, for buses. This is the three-tiered garage?

Mr. **Julius Smith**. Yes. Forty buses.

Mr. **Boland**. Are the parking spaces available for just visitors or for employees, too?

Mr. **Julius Smith**. Just visitors.

Mr. **Boland**. Where do the employees park?

Mr. **Costanzo**. They have a separate parking area located adjacent to the administration building. Field employees park in an area located at the service complex on the other side of the cemetery.

NON-FUNERAL CEREMONIES

Mr. **Boland**. Now, last year, as in previous years, questions were raised about the increasing number of non-funeral ceremonies. Last year you stated that you did not anticipate a need for increased resources for this function despite a more than doubling of the number of ceremonies over three years.

Again in fiscal year 1987 we see a projected increase in the number of non-funeral ceremonies. This year you have requested an increase of over $444,000 for operation and maintenance. Does this reflect an increase for non-funeral expenses, too?

Mr. **Costanzo**. No, sir. It does not.

OFFICIAL RECEPTION AND REPRESENTATION EXPENSES

Mr. **Boland**. On page 7 of your justification, you requested a language change to set a $1,000 limit for official reception and representation expenses. What is the nature of your previous receptions and what have been the associated costs? You may for the record supply this information, for the last two years. Can you give us a little information on it now?

Mr. **Costanzo**. Yes. Very briefly, sir, I was not directed to, but it was suggested to me that it be put into the program. I have been personally absorbing that small cost myself and it generally covers very——

Mr. **Boland**. Out of your own salary?

Mr. **Costanzo**. Yes, sir.

Mr. **Boland**. Don't do that.

Mr. **Costanzo**. In any event, it is a small amount.

Mr. **Boland**. Don't do that. Make the others that are at the office there pay.

Mr. **Costanzo**. Generally, it is for coffee and donuts when we are having visiting heads of state or other visiting dignitaries.

Mr. **Boland**. What is the nature of the non-funeral expenses? I know about the visitations of the Vice President and heads of state, and I think there ought to be proper representation allowances for that kind of a visitation.

[The information follows:]

REPRESENTATIONAL FUNDS

Representational Funds are used to purchase light refreshments for participating dignitaries who are attending ceremonial events conducted at Arlington National Cemetery, also for meetings conducted at the cemetery with Veterans, civic and patriotic organizations. Funds expended during Fiscal Year 1984 were approximately $475.00 and Fiscal Year 1985 approximately $600.00.

NON-FUNERAL EXPENSES

Mr. Boland. What about some of the other non-funeral ceremonies?

Mr. Costanzo. As you recall, I think we estimate somewhere around six work years, somewhere near $150,000. That is primarily pay of salaries for the custodial personnel to service and clean up and set up the ceremonial areas. Of the some 1,900 ceremonies that we are projecting for 1987, the majority, about 1,700, are groups from throughout the United States, such as civic, patriotic, and veterans groups. They visit the Tomb of the Unknown Soldier for the purpose of placing a wreath and having a brief ceremony.

VEHICLES

Mr. Boland. OK. On page 9 of the justification, you requested funds to replace six trucks due to age. What is the age and condition of each vehicle?

Mr. Costanzo. They are all seven years old which is the mandatory age for replacement. The average is about 36,000 miles per vehicle. The estimated cost for the replacement of these six vehicles—they are all half-ton pick-up trucks—is about $48,000.

Mr. Boland. Is the standard seven years and so many miles, or you say seven years?

I thought it was six years or 50,000 miles.

Mr. Costanzo. It depends on the size of the vehicle. It is seven years for that size and I believe it is 72,000 miles, or whichever comes first.

Mr. Boland. Thirty-six thousand miles doesn't seem much. I am driving a car that has 105,000 miles and you wouldn't know it if you rode in it.

Mr. Green. I have a 1969 Chevy myself.

Mr. Boland. That does not seem to be very many miles. Most vehicles are at least 50,000 miles, we gather, when the hearings we have on other agencies come before this committee.

Mr. Costanzo. Let me answer that. All our vehicles are used for very short trips driven at very low speeds. That is probably the worst way to use a vehicle. They deteriorate more rapidly than if driven at higher speeds on the highway. Used under these conditions we do not accumulate great mileage on our vehicles.

Mr. Boland. And there is some fairly heavy duty with them, too?

Mr. Costanzo. Yes, sir.

Mr. Boland. Are they all trucks?

Mr. Costanzo. All trucks. That type of operation lends itself to more rapid deterioration and costly repairs.

MASTER PLAN

Mr. **Boland**. Two years ago you provided the subcommittee with an update of the master plan for the Arlington Cemetery. At that time you planned to request design and construction funds in fiscal years 1989 and 1990 for the next 5,000 niche modules of the columbarium. On page 1 of this year's justification, it states a projected request for design funds in 1988. When will you request construction funds for the next increment of the columbarium?

Mr. **Costanzo**. The next increment will be requested in fiscal year 1988 and it will be for 10,000 niches rather than 5,000 that we originally estimated. The reason for that is when we first built the columbarium, we estimated our use to be somewhere around 700 cases a year. We are, however, experiencing over 1,000 cases a year. It is being used at a higher rate than we originally anticipated. Therefore, to preclude interruptions in that program, we are going to request that they be built in at 10,000 niche increments and spread them over an eight year period of time.

Mr. **Boland**. That sounds sensible.

Let me ask you whether there are any additional changes for the master plan outside of the increase of 5,000 niches for the columbarium?

Mr. **Julius Smith**. There are no changes.

Mr. **Costanzo**. No, none that I am aware of.

[The information follows:]

ARLINGTON NATIONAL CEMETERY

MASTER PLAN
($ in Thousands)

	Fiscal Year				
	88	89	90	91	92
D - Columbarium 10,000 Niches	145				
C - Columbarium 10,000 Niches		9,858			
D - New Warehouse Facilities			368		
C - New Warehouse Facilities				6,409	
D - Demolition of Temp Visitors Center and Parking Facility	15				
C - Demolition of Temp Visitors Center and Parking Facility	301				
D - Development of Sections 55 & 57 (15 Acres, Temp Visitors Center & Parking Facility)	101				
C - Development of Sections 55 & 57 (15 Acres, Temp Visitors Center & Parking Facility)	2,002				
D - Repair Cemetery Roads Phases III-V			115		
C - Repair Cemetery Roads Phases III-V			2,183		
D - Renovation of Custis Walk	70				
C - Renovation of Custis Walk	762				
D - Land Development Project 90 (40 Acres East Cemetery)				265	
C - Land Development Project 90 (40 Acres East Cemetery)					6,889
D - Replace West Boundary Wall				112	
C - Replace West Boundary Wall					2,918
TOTAL	3,396	9,858	2,666	6,786	9,807

D- Design
C- Construction

MAINTENANCE CONTRACTS

Mr. **Boland**. In last year's hearings, you remember we discussed the contracting out of grounds maintenance and security services. At that time you estimated your fiscal year 1985 obligation to be, respectively, $936,000 for ground maintenance and $410,000 for security. Your 1987 budget shows actual obligations for fiscal year 1985 of $944,000 for grounds maintenance and $438,000 for security services. They are only slight differences, but what is the reason for the slight difference?

Mr. **Costanzo**. Would you repeat that? Which year, sir?

Mr. **Boland**. In 1985, the estimated obligations were $936,000 for grounds maintenance and $410,000 for security. But in your 1987 budget request, the actual obligations in 1985 were $944,000 for grounds maintenance and $438,000 for security services. The differences aren't very large.

Mr. **Costanzo**. No. The difference in the ground maintenance is due to the fact that during the previous year we put an additional requirement on the contractor to change the type of equipment he was using for trimming around headstones. They were using the old rotary bunton-type trimmer, which was causing damage to the headstones. We therefore required the contractor to change equipment and use the string type trimmer that I am sure you are all familiar with. This precluded the danger of damage to the headstones. This then put an unanticipated, additional cost on the contractor which we are required to reimburse.

Mr. **Boland**. Now, the difference between the 1986 request for grounds maintenance and security services is not considerable either, but this year, not counting sequestration, there is a three percent growth in the security services contract. What is the reason for this?

Mr. **Costanzo**. We have made some slight changes in the hours and the posts to be covered.

Mr. **Boland**. How will sequestration affect these contracts?

Mr. **Costanzo**. We plan no reduction in those areas. We plan to absorb the sequestration in other areas.

Mr. **Boland**. How often do you review the cost effectiveness of the contracts?

Mr. **Costanzo**. We do it informally once a year and formally every three years.

Mr. **Boland**. In your fiscal year 1987 request, which is reflected on page 11, no growth is shown in either of these contracts. Do you think that is realistic?

Mr. **Costanzo**. We will know very shortly, sir. We are soliciting bids for both contracts at this time and are hopeful there will be favorable bidding.

Mr. **Boland**. Are you satisfied with the services? Have they improved over the year?

Mr. **Costanzo**. Some improvement, yes, sir. There is some improvement in the ground maintenance but not in the security area. We have had some problems there that we are prepared to deal with.

Mr. **Boland**. On page 46 of last year's hearings, you provided us with costs of deferred maintenance projects because no fiscal year

1986 funding was requested. Specifically, these projects were for maintenance of buildings, $7,000; maintenance of roads and walks, $30,000; maintenance of water and sewer system, $23,000; and maintenance of walls, fences and gates, $19,000. Despite no funds requested, you now plan to obligate $9,000 for maintenance of buildings. Why?

Mr. Costanzo. That was before sequestration. That $9,000 has now been deleted. We have had a problem with the area used to house our field employees. We are now forced to use in trailers, that we picked up from GSA surplus. We had planned to do some minor renovations and adjustments to the service area to provide more comfortable and sanitary conditions for our field employees. That is where we had planned to use the $9,000.

Mr. Boland. Can you provide a table indicating what you anticipate the maintenance of the buildings and the four projects I mentioned would be?

[The information follows:]

Projects deferred fiscal year 1986

Maintenance of Buildings	$7,000
Maintenance of Roads & Walks	30,000
Maintenance of Water & Sewer System	23,000
Maintenance of Walls, Fences and Gates	19,000

Projects required fiscal year 1987

Maintenance of Buildings	$22,000
Maintenance of Roads & Walks	60,000
Maintenance of Water & Sewer System	50,000
Maintenance of Walls, Fences and Gates	50,000

Mr. Boland. You also plan to obligate fiscal year 1986 funds for maintenance of flagstaff and monuments, despite no original request. What is the reason for this?

Mr. Costanzo. That $25,000, sir?

Mr. Boland. Yes.

Mr. Costanzo. With the opening of the new columbarium in March, we will now be tasked with the responsibility for inscribing the niche covers; this is a new requirement. We estimate that this will cost approximately $25,000.

Mr. Boland. Does your request for 1987 provide total funding necessary for the maintenance of all these particular items that we talked about?

Mr. Costanzo. 1987 in other services?

Mr. Boland. Yes.

Mr. Costanzo. Yes, sir.

Mr. Boland. Thank you very much.

SECURITY PROBLEMS

Mr. Green. You mentioned security problems you are having to deal with. Could you spell that out a little more?

Mr. Costanzo. Under the current arrangements we are always required to accept the lowest bidder. That is resulting in substandard contracts with substandard employees servicing the gates and throughout the cemetery. This results because of hiring people at a minimum wage which is incompatible with this national shrine.

We are experiencing contract employees who do not have full command of the English language.

This year to avoid that problem we have changed the procedure from a low bid contract to a request for proposal. We can then evaluate the proposals to determine whether or not they would be suitable for this national shrine. We will not be required to accept the lowest bid, but will be required to accept the lowest bid that meets our standards.

This, we believe, will provide us with the type of employees we expect.

Mr. **Green**. Thank you, Mr. Chairman.

Mr. **Boland**. I have a note here, would it be less expensive to have in-house security?

Mr. **Costanzo**. I don't know whether or not it would be less expensive. We can certainly look at that. It would be more desirable from my standpoint to have in-house security because I would have more control over them; under contract arrangements we do not have the control that we feel is necessary.

Mr. **Boland**. Okay, Mr. Costanzo, and thank you very much.

Thank you, Ray Pettis, and Julius Smith, and good luck to you, Rory Smith, and Colonel Dunn. We are glad to have you and have a nice day.

VISITORS' CENTER RENDERING

Mr. **Julius Smith**. Mr. Chairman, before we leave.

Mr. **Boland**. Yes.

Mr. **Julius Smith**. I would like to show you a rendering of the visitors' center.

Mr. **Boland**. What are we looking at?

Mr. **Julius Smith**. That is the visitors' center.

Mr. **Boland**. It is beautiful. We are going to get all of that for how much?

Mr. **Julius Smith**. Eight million dollars.

Mr. **Boland**. What is the cost of the parking structure, $9 million-something?

Mr. **Julius Smith**. Nine million-something.

Mr. **Boland**. Parking structures are very expensive. We have a lot of concerns with parking structures, I must say, particularly with the Veterans' Administration.

Thank you very much.

[The justifications follow:]

DEPARTMENT OF THE ARMY

U.S. ARMY MILITARY DISTRICT OF WASHINGTON

BUDGET JUSTIFICATION, FISCAL YEAR 1987

CEMETERIAL EXPENSES, DEPARTMENT OF THE ARMY

TABLE OF CONTENTS

I. GENERAL STATEMENT ---------- 1

II. FINANCIAL STATEMENTS

Lead-Off Tabular Statement ---------- 2
Reconciliation of Obligations and Appropriations ---------- 3

III. JUSTIFICATION

Operation and Maintenance ---------- 4
Administration ---------- 5
Special construction, Arlington National Cemetery ---------- 6

IV. SUPPORTING DATA

Appropriation Language ---------- 7
Language Changes ---------- 8
Vehicle Data ---------- 9
Object Classification ---------- 10
Object Classification, Other Services OC25 ---------- 11
Program and Financing ---------- 12
Detail of Permanent Positions ---------- 13
Number of Civilian Personnel ---------- 14
Personnel Summary ---------- 15
Status of Arlington and Soldiers' & Airmen's Home National Cemeteries ---------- 16

GENERAL STATEMENT

Arlington and Soldiers' and Airmen's Home National Cemeteries function as principal national shrines where public honor and recognition are accorded deceased persons interred/inurned in a setting of peace, reverence and natural beauty. Operational responsibility for these cemeteries is vested in the Secretary of the Army.

At the close of FY 1985 the remains of 212,004 persons were interred/inurned in these cemeteries. Of this total, 193,273 persons were interred and 4,865 remains inurned in the Columbarium in Arlington National Cemetery, and 13,866 remains were interred in the Soldiers' and Airmen's Home National Cemetery. The first 5,000 niche unit of the Columbarium was opened in April 1980 to accommodate inurnment of cremated remains of honorably discharged veterans not otherwise eligible for burial at Arlington. The second 5,000 niche unit has recently been completed. Design funds for the next increment will be requested in FY 1988. In FY 1985 services were conducted for 3,904 persons, which included 74 General and Flag Officers. In FYs 1986 and 1987 burials and inurnments are projected to be 3,940 and 4,035 respectively.

In addition to its principal function as a national cemetery, Arlington is the site of many non-funeral ceremonies each year. In FY 1985, 1,885 such ceremonies were conducted. A like number of ceremonies is anticipated for Fiscal Years 1986 and 1987. The President of the United States, 10 foreign heads of state, governors and other high-ranking military and political officials participated in these ceremonies in FY 1985. In FY 1986 the President of the United States and the Prince and Princess of Wales attended Veterans Day ceremonies. Arlington National Cemetery has approximately 3.5 million visitors annually, second in the National Capital Region only to the Smithsonian Institution as the most visited historic site.

Consistent with the objectives and goals of the Master Plan for Arlington National Cemetery initiated in FY 1967, construction of a permanent Visitors Center and parking facility is projected to begin in July 1986 with an expected completion date of December 1987.

LEAD-OFF TABULAR STATEMENT
($ in Thousands)

Brought forward to FY 1985:	
Unobligated balance end of FY 1984	$ 48
Appropriation, FY 1985	7,812
Recovery from prior year obligations	96
Obligations, FY 1985	7,919
Unobligated balance available end of FY 1985	36
Funds carried forward to FY 1986:	
Unobligated balance end of FY 1985	$ 36
Appropriation, FY 1986	14,615
Obligations, FY 1986	14,651
Appropriation Request:	
Appropriation Request, FY 1987	$15,783
Increase in estimated obligations, FY 1987	+1,132
Increase in appropriation request, FY 1987	+1,168

RECONCILIATION OF OBLIGATIONS AND APPROPRIATIONS
($ in Thousands)

		Operation & Maintenance	Administration	Construction	Totals
A.	FY 1985 Obligations	$6,200	$303	$1,416	$ 7,919
B.	FY 1985 Appropriation	6,222	360	1,230	7,812
C.	Recovery PY Obligation	96			96
D.	FY 1986 Obligations	5,963	330	8,358	14,651
E.	FY 1986 Appropriation	5,927	330	8,358	14,615
F.	FY 1987 Obligations	6,371	330	9,082	15,783
G.	FY 1987 Appropriation	6,371	330	9,082	15,783
H.	FY 1987 Increase or Decrease				
	Appropriation (Line G Minus E)	+444 1/	0 2/	+724 3/	+1,168
	Obligations (Line F Minus D)	+408	0	+724	+1,132

Justification:

1/ See Page 4

2/ See Page 5

3/ See Page 6

JUSTIFICATION

1/ Operation and Maintenance of Arlington and Soldiers' & Airmen's Home National Cemeteries $6,371,000

Appropriation Increase	$444,442
Obligation Increase	$408,442

Funds requested will provide for the cost of daily operations necessary to support an average of 15 interments/inurnments daily and for maintenance of approximately 628 acres. The remains of over 212,000 persons occupy existing graves. In addition to the graves, there are 18 miles of roadways and walkways, and a number of historic sites and other buildings and structures located throughout the cemetery that require recurring maintenance. The Tomb of the Unknown Soldier, the Memorial Amphitheater, the Visitors Center, the Administration Building, the Columbarium, and the graves of Presidents Kennedy and Taft are among the more well known edifices and historic sites that require constant maintenance. Facilities must also be maintained and equipped to house and repair cemetery vehicles and equipment.

Approximately 1,900 non-funeral events are projected for FY 1987 that will require the use of cemetery personnel, equipment and supplies to conduct these ceremonies. These ceremonies may involve the participation of the President and Vice President of the United States, Cabinet Officials, Members of Congress, Governors, Foreign Heads of State, and other military and political dignitaries.

A combination of commercial contractual services and civilian personnel are utilized to accomplish the operation and maintenance activities. Ground maintenance, security and headstone realignment are major functions performed by private firms. Most other functions, including the projected 4,035 interments/inurnments in FY 1987, will be accomplished by cemetery personnel utilizing 142 workyears.

JUSTIFICATION
- Continued -

2/ Administration $330,000

Appropriation Increase	$0
Obligation Increase	$0

This activity performs the essential management and administrative functions to include staff supervision of Arlington and Soldiers' and Airmen's Home National Cemeteries; responding to correspondence from The White House, Congress, other government agencies, and the general public; planning and programming, to include all construction projects; budget preparation; resource management; implementing policy decisions, to include interment/inurnment eligibility; development and maintenance of significant statistical data essential to cemetery operations; and technical and administrative inspections to ensure that the highest standards are adhered to in the services rendered.

Funds requested will provide for the compensation, benefits and support costs of the personnel assigned to this function.

3/ Construction at Arlington National Cemetery $9,082,000

Appropriation Increase	$724,000
Obligation Increase	$724,000

In order to ensure that buildings, structures and other physical facilities are adequate to meet requirements dictated by its mission, Arlington National Cemetery requires an ongoing program to construct and renovate buildings, structures, roadways and walkways, and to develop parcels of land to make them suitable for gravesites. Also, in 1967 the Congress approved an Arlington National Cemetery Master Plan authorizing construction of 28 projects. To date, 24 of these projects have been funded or partially funded.

Funds requested for FY 1987 will provide for the construction of a parking facility for the permanent visitors center. The 332,000 square foot concrete structure will have a capacity for 600 cars and 40 buses. The facility will be built with three stepped-down levels--the two lower levels for cars and the upper level for buses and oversize vehicles (recreational vehicles). Related support areas for the reception of public vehicles will be provided, as well as screen landscaping throughout the area.

DEPARTMENT OF DEFENSE - CIVIL

CEMETERIAL EXPENSES, ARMY

FEDERAL FUNDS

General and Special Funds

SALARIES AND EXPENSES

For necessary expenses, as authorized by law, for maintenance, operation, and improvement of Arlington National Cemetery and Soldiers' and Airmen's Home National Cemetery, and not to exceed $1,000 for official reception and representation expenses; [$14,615,442] $15,783,000 to remain available until expended: Provided, that reimbursement shall be made to the applicable military appropriation for the pay and allowances of any military personnel performing services primarily for the purpose of this appropriation.

LANGUAGE CHANGES

There are two proposed changes in the 1987 appropriation language:

Include: "and not to exceed $1,000 for official reception and representation expenses"

Increase amount to be appropriated from $14,615,442 to $15,781,000.

VEHICLE DATA

Type	Number	Replacement Criteria		
		Mileage	Age	Other
Trucks, 4x2's under 12,500 lbs.	6		X	

60

60

OBJECT CLASSIFICATION
($ in Thousands)

		FY 1985 Actual	FY 1986 President's Budget	FY 1986 Current Estimate	FY 1987 Estimate	Increase/ Decrease
11.9	Personnel compensation ----------------	$3,237	$ 3,366	$ 3,278	$ 3,418	$+ 140
12.0	Personnel benefits ---------------------	502	527	510	530	+ 20
21.0	Travel and transportation of persons ---	3	3	3	3	
22.0	Transportation of things ---------------	1	2	2	2	
23.1	Standard level user charges ------------	22	22	22	21	- 1
23.2	Communications, utilities and other rent	186	179	175	175	
25.0	Other services -------------------------	2,498	1,668	1,683	1,865	+ 182
26.0	Supplies and materials -----------------	480	465	450	478	+ 28
31.0	Equipment ------------------------------	185	171	170	198	+ 28
32.0	Land and structures --------------------	805	8,375	8,358	9,093	+ 735
	Total direct obligations	$7,919	$14,778	$14,651	$15,783	$+1,132

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OTHER SERVICES, OBJECT CLASS 25
($ in Thousands)

	FY 1985 Actual	FY 1986 President's Budget	FY 1986 Current Estimate	FY 1987 Estimate	Increase/ Decrease
Maintenance of Equipment	$ 22	$ 31	$ 31	$ 31	$ --
Maintenance of Roads & Walks	292	--	--	60	+ 60
Maintenance of Water & Sewer System	--	--	--	50	+ 50
Maintenance of Building	7	--	9	22	+ 13
Maintenance of Walls, Fences & Gates	--	--	--	50	+ 50
Maintenance of Flagstaff & Monuments	1	--	25	25	--
Security Contract	438	420	436	436	--
Grounds Maintenance Contract	944	983	983	983	--
Headstone and Realignment	130	100	84	84	--
Tree Maintenance	53	17	17	17	--
Other Recurring Contracts	96	67	48	57	+ 9
Support Agreement w/MDW	53	50	50	50	--
Permanent Visitors Center and Parking Facility (Final Design)	462	--	--	--	--
TOTAL	$2,498	$1,668	$1,683	$1,865	$+182

PROGRAM AND FINANCING
($ in Thousands)

	FY 1985 Actual	FY 1986 President's Budget	FY 1986 Current Estimate	FY 1987 Estimate
Program by Activities:				
1. Operation and maintenance ---------	$6,200	$ 6,081	$ 5,963	$ 6,371
2. Administration --------------------	303	339	330	330
3. Special construction, Arlington National Cemetery ---	1,416	8,358	8,358	9,082
10.00 Total obligations --------------	7,919	14,778	14,651	15,783
Financing:				
17.00 Recovery from prior year obligations	-96	--	--	--
21.40 Unobligated balance available start of year -----------------	-48	--	-36	--
24.40 Unobligated balance available end of year -------------------	36	--	--	--
39.00 Budget authority ------------------	7,812	14,778	14,615	15,783
40.00 Appropriation ---------------------	7,812	14,778	14,615	15,783
Relations of obligations to outlays:				
71.00 Obligations incurred, net ----------	7,919	14,778	14,651	15,783
72.40 Obligated balance, start of year ---	3,590	3,940	3,839	11,194
74.40 Obligated balance, end of year -----	-3,839	-11,399	-11,194	-12,179
78.10 Adjustment in unexpired accounts ---	-96	--	--	--
90.00 Outlays excluding pay raise suppl --	7,575	7,316	7,296	14,798
91.10 Outlays WB pay raise suppl ---------	--	2	--	--
91.20 Outlays civ pay raise suppl --------	--	1	--	--

DETAIL OF PERMANENT POSITIONS

Grade	FY 1985 Actual	FY 1986 President's Budget	FY 1986 Current Estimate	FY 1987 Estimate
GS/GM-15	1	1	1	1
GS/GM-14	0	1	1	1
GS/GM-13	1	0	0	0
GS-12	4	5	5	5
GS-11	4	3	3	3
GS-09	6	6	6	6
GS-07	12	12	12	13
GS-06	5	5	5	4
GS-05	6	6	6	7
GS-04	9	9	9	7
GS-03	0	0	0	1
Subtotal	48	48	48	48
Ungraded	92	92	92	92
Total Permanent Positions	140	140	140	140
Unfilled Positions, End of Year	8	-	-	-
Total Permanent Employment, End of Year	132	140	140	140

NUMBER OF CIVILIAN PERSONNEL AND WORKYEARS AT END OF YEAR

	FY 1985 Actual		FY 1986 President's Budget		FY 1986 Current Estimate		FY 1987 Estimate	
	Full-Time Permanent Positions	Total	Full-Time Permanent Positions	Total	Full-Time Permanent Positions	Total	Full-Time Permanent Positions	Total
End Strength								
0861 Operations & Maintenance	133	133	133	133	133	133	133	133
0864 Administration	7	7	7	7	7	7	7	7
Total	140	140	140	140	140	140	140	140
Workyears								
0861 Operations & Maintenance	133	140	133	142	133	142	133	142
0864 Administration	7	6	7	7	7	7	7	7
Total	140	146	140	149	140	149	140	149

65

PERSONNEL SUMMARY

	FY 1985 Actual	FY 1986 President's Budget	FY 1986 Current Estimate	FY 1987 Estimate
Total number permanent positions	140	140	140	140
Total compensable workyears:				
Full-time equivalent employment	146	149	149	149
Full-time equivalent of overtime and holiday hours:	2	2	2	2
Average GS grade	7.38	7.35	7.42	7.44
Average GS salary	$22,208	$21,299	$22,625	$22,917
Average salary of ungraded positions	$21,522	$19,232	$21,924	$22,207

STATUS OF ARLINGTON AND SOLDIERS' AND AIRMEN'S HOME NATIONAL CEMETERIES
30 SEPTEMBER 1985

	Gravesites Available	Gravesites Used	Gravesites Reserved	Projected Closing Date
Arlington National Cemetery	49,826	169,283	12,880	2021
Soldiers' and Airmen's Home National Cemetery	473	13,488	25	2003

STATUS OF COLUMBARIUM AT ARLINGTON NATIONAL CEMETERY

Niches Available	Niches Used	Projected Closing Date
5,185	4,865	1991

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WEDNESDAY, FEBRUARY 19, 1986.

FEDERAL HOME LOAN BANK BOARD

WITNESSES

EDWIN J. GRAY, CHAIRMAN OF THE BOARD
DONALD I. HOVDE, BOARD MEMBER
MARY A. GRIGSBY, BOARD MEMBER
SHANNON FAIRBANKS, EXECUTIVE STAFF DIRECTOR
ROBERT SAHADI, DIRECTOR, OFFICE OF POLICY AND ECONOMIC RESEARCH
HARRY W. QUILLIAN, GENERAL COUNSEL
FRANCIS PASSARELLI, DIRECTOR, OFFICE OF EXAMINATIONS AND SUPERVISION
ANGELO A. VIGNA, DIRECTOR, OFFICE OF FEDERAL SAVINGS AND LOAN INSURANCE CORPORATION
S.G. FRANK HAAS, III, DIRECTOR, OFFICE OF DISTRICT BANKS
LAWRENCE A. WITHERS, DIRECTOR, CONGRESSIONAL RELATIONS OFFICE
RICHARD L. PETROCCI, DIRECTOR, ADMINISTRATION OFFICE
WILLIAM CASEY, DIRECTOR, PERSONNEL MANAGEMENT OFFICE
DENNIS M. PITTMAN, BUDGET OFFICER

OPENING REMARKS

Mr. BOLAND. The committee will come to order.

We are delighted to welcome today the Federal Home Loan Bank Board and the new Acting Director of FSLIC. You have a long statement. I must say it is a good one. Usually I say that the amount of money we make available is in direct proportion to the length of the statement. It looks like you are going to be in good shape this year.

It is a good one. I think it points out the problems that the S&Ls have had. Let me say, and I think this is a view that is heard by the members of this committee, over the past couple of years you have done a tremendous job, an outstanding job.

Mr. GRAY. Thank you, sir.

Mr. BOLAND. You're working in solving a very, very difficult problem under very difficult circumstances. You are not the most popular man in the S&L industry, but be that as it may, I think what you and your board members have done has really given the people who save in the S&Ls some confidence in the system.

The system actually did increase, as I understand, in membership over the past year. This is a remarkable accomplishment when one thinks of the problems the system had prior to that time. So we welcome you here. This committee, I think, has been helpful to the Board. I am not sure we would be that helpful in the future, but I know there are some things you will be requesting.

I don't know whether you can do it through the appropriations process or whether or not you have to do it through the legislative process; in any event, we hope we can help you chart the waters a little easier

I know you have some concern about the impact of Gramm-Rudman-Hollings. I share that, too. I don't know why in the world—it does not impact upon the deficit at all, as you point out.

I think I share that view. Perhaps there is a way in which we can be helpful to you. If there is, in conjunction with the advice of my fellow members here, we will try to do it. Do I have to read a statement that has not been cleared by OMB? You indicate at the end that this statement is not subject to clearance of OMB and the Administration. They wouldn't be distressed at this anyway, would they?

Mr. **Gray**. I am sure they wouldn't.

Mr. **Boland**. Don't you get along pretty well with OMB? You don't have to answer the question.

Mr. **Gray**. I think we are working more constructively.

Mr. **Boland**. That is fine. Well, we are delighted to have you and Don Hovde and Mary Grigsby with us, and everybody else that is part and parcel of the Board and FSLIC. Why don't you go ahead and tell us all about what your accomplishments have been and what the future holds in store for us.

EXAMINATION REFORM

Mr. **Gray**. I appreciate very much being here today with my colleagues on the Board and the staff. I want to particularly thank this committee.

When we met last year at this time we discussed what we believed was the need to transfer the examiners from Civil Service out to the Federal Home Loan Banks under delegated authority. They numbered about 750 at the time.

We subsequently did that. I am not only delighted that we did, but I think for the health of the FSLIC and for the thrift system nationally, it was an historic, certainly unprecedented and important step to take. Since that transfer has occurred, the number of examiners in our system has increased to over 1,000 from 750. We are on our way by the end of June of this year to 1250 examiners and by the end of the year to about 1500 which will be in a year-and-a-half a virtual doubling of the size of our examination staff.

Mr. **Boland**. Will that be the top, 1500?

Mr. **Gray**. I think when we get beyond that what we want to do is determine exactly how many we need because examination, supervision, both being a front line of defense for the FSLIC. We will try to determine what the best number is to accomplish that purpose.

In addition to the numbers and the retention that we are having as a result of that transfer, because as you can imagine, the salaries have increased for our examiners. Retention is far greater but, in addition to that, we have far better coordination in the Federal Home Loan Bank districts between coordination and examination which was precisely what the House Government Operations Committee report from Chairman Doug Bernard on our failure of the

Empire of Mesquite Savings in Texas said we ought to do to modernize our structure within our own system. We had, of course, a bifurcated system in which the examiners and the supervisors almost had to go to Washington. They had to go through these awkward steps to communicate well. Even when that was possible, there had been created a distrust between examiners and supervisors.

Now we don't find that distrust. We find efficiency and effectiveness operating in our Federal Home Loan Bank districts. The system has been improved and this, of course, will have very beneficial consequences in the years to come.

This is part of the emphasis we have placed on modernizing our system which was built in the 1930s for an entirely different kind of industry, entirely different kind of economic problems, and scenarios. What we were dealing with as we came into this deregulated environment with new asset and liability powers for thrifts was a regulatory system that really was a model A Ford regulatory system.

I perhaps exaggerate in saying that, but it had not really been updated to deal with the kinds of challenges that we have today. So this was a very important step.

FUTURE PROGRESS

I believe there are other important steps we will be proposing to the Congress in the form of legislation, other administrative actions we can take simply with respect to the structure of our system. But the progress that we have made that is—I have to emphasize this to you, Mr. Chairman, and members of this subcommittee, for giving us really our first signal that we could move in this direction.

That signal, by the way, was repeated by Senator Proxmire and Senator Garn when we went before his Senate Appropriations Subcommittee. As a result, we are all better off. There may well be other ways and we may have ideas that may be different from various Members of Congress, but we have certainly the same mission and the same goal of improving our system so that we can, in fact, deal with our problems effectively through structures that work more responsibly.

The progress we have already made gets us three-quarters of the way there. I am not sure we are there yet and I would be delighted to talk about how we get the rest of the way just in terms of the structure. I think the testimony that we have submitted, and I am delighted that you agree, was appropriate and was a good one.

I agree with you. I think it reflects a great deal of work on the part of my colleagues, the staff at the Bank Board, the men and women of the Federal Home Loan Bank system. I don't think there are any people more dedicated to good government, to the financial system in our country, to making it work and making it work well, than the men and women I work with here in Washington and out in the field throughout the Federal Home Loan Bank System.

I am proud to be associated with them as I am to be associated with the savings and loan industry in the United States, which has done so much for our country for over a half century in providing and enhancing home ownership opportunities for American families.

So we are delighted to be a part of one of the good things in America, and the people who we work with help make that possible.

Mr. **Boland**. Well, you have certainly got a nice start in trying to resolve the problems that face the S&Ls. You have a way to go, too, of course.

If you want to get into your statement in any part, that is fine. We will put the whole statement in the record incidentally.

Mr. **Gray**. I am really ready to take any questions that members may have.

[The statement of Mr. Gray follows:]

STATEMENT OF
EDWIN J. GRAY, CHAIRMAN
OF THE
FEDERAL HOME LOAN BANK BOARD
BEFORE THE
SUBCOMMITTEE ON HUD-INDEPENDENT AGENCIES
OF THE
COMMITTEE ON APPROPRIATIONS
OF THE
U.S. HOUSE OF REPRESENTATIVES

February 19, 1986

Mr. Chairman, Members of the Subcommittee, I appreciate the opportunity to present today the fiscal year ("FY") 1987 budget request and the FY 1986 supplemental budget request of the Federal Home Loan Bank Board ("Bank Board" or "Board"). Our 1987 request is $33,659,000 and provides for a cumulative staff increase of 124 positions during 1986 and 1987 in Board offices funded under these Congressional budget limitations. These staffing increases, 95 positions in 1986 and 29 more positions in 1987, are supported by the Administration and are essential if the Bank Board is to deal with the continuing serious problems of the thrift industry. The Administration is submitting, on our behalf, a $3,429,000 FY 1986 budget supplemental request to fund the 95 additional positions in the current fiscal year.

As an offset to our FY 1986 budget, 4.3% of this agency's "administrative" expenses are being sequestered under the Balanced Budget and Emergency Deficit Control Act, P.L. 99-177 ("Gramm-Rudman-Hollings"). The sequestered amounts are $1,156,000 from the Bank Board's Administrative Expense limitation and $62,000 from the Federal Savings & Loan Insurance Corporation's (FSLIC) Administrative Expense limitation. The resulting adjusted spending limits are $25,721,000 and $1,378,000, respectively. The accounting for these reductions is shown on the opening page of our budget justification material. While these initial reductions may appear relatively small, we have major concerns regarding both this application of Gramm-Rudman-Hollings to expenses financed from non-federal sources and which have no impact upon the deficit and, more importantly, the potential serious impact of such a reduction on the FSLIC and FSLIC-supported activities.

The sequestration of our budgeted funds, while small, will have a very serious impact on the FSLIC's default prevention and liquidation activities. This is because the Bank Board's administrative budget subject to sequestration funds vital support services, such as legal, accounting, data processing, and supervisory management, all integral to FSLIC operations. Moreover, 75% of this administrative budget funds salaries and pay-related benefits, so that even relatively small reductions will force immediate staffing reductions in these critical support areas. This will almost certainly delay resolution of a substantial number of failing financial institutions, resulting ultimately in higher costs to the FSLIC.

Every federal agency head must address the potential of a FY 1987 sequester under Gramm-Rudman-Hollings, notwithstanding the recent decision of a special three judge panel ruling the sequester unconstitutional subject to Supreme Court review. The balanced budget law prescribes a maximum deficit of $144 billion for the upcoming fiscal year. Granting the imprecision of unofficial estimates, projected FY 1987 deficits have ranged from $40 to $80 billion above the maximum. Correspondingly, the potential sequester could range from 18% to 30%. Without a doubt, I can advise you that such a sequester would seriously impair the effectiveness of the Bank Board and incalculably harm the FSLIC.

I. OVERVIEW- FHLBB CONCERNS IN A DEREGULATED ENVIRONMENT

Thrift profitability improved substantially last year. Preliminary information indicates net after-tax income of FSLIC-insured thrifts was about $4.0 billion. This produces a return on assets of 0.40 percent, up from 0.12 percent in 1984, and the highest since 0.67 percent in 1979. Most of the year-to-year improvement in profitability resulted from a rise in net operating income stemming from a decline in cost of funds caused by the reduction in market interest rates. However, net non-operating income also increased, primarily as a result of a rise in profits on asset sales. Despite last year's increase in aggregate industry profitability, however, somewhat more than 15 percent of all FSLIC-insured thrifts were operating at a loss.

As a result of the improvement in profits, sales of stock and of subordinated debentures, and issuance of income capital certificates, the regulatory net worth of thrifts rose to $46.6 billion at the end of 1985, increasing the average regulatory net worth/assets ratio to 4.36 percent from 3.87 percent a year earlier. Even so, about 22 percent of all FSLIC-insured institutions had a regulatory net worth/assets ratio below 3 percent. Thus, although the industry earned record profits, record insolvencies were suffered. I would like to address the problems we see facing the FSLIC Fund, the constraints that impede our resolution of those problems, and the steps we have taken and intend to take to reduce them.

The FSLIC fund remains under enormous strain and the Bank Board and FSLIC staff resources continue to be stretched severely. At year end 1985 the total insurance reserve amounted to just over $6 billion and the ratio of reserves to members' deposits remained at about 0.72%. Moreover, conventional government staffing limits and pay scales and the new constraints of Gramm-Rudman-Hollings impose severe restrictions upon us and will cause further unnecessary losses to the FSLIC Fund. The unacceptably low ratio of FSLIC reserves to liabilities imposes severe budgetary restraints on the number of cases the FSLIC can resolve because the resolution of a bad asset case almost invariably requires substantial FSLIC financial assistance. Non-bank banks also impose a crippling constraint upon the FSLIC. The existence of this loophole greatly reduces the pool of interested bidders for FSLIC cases and substantially raises the costs to the FSLIC. Finally, the inadequate statutory authority of the Board to deal with some of the problems it faces unnecessarily hampers our enforcement efforts.

The Bank Board has taken action on many fronts to deal with the problems and constraints facing the Bank Board and the FSLIC. We have attacked the problem of staffing limitations by delegating the examination function to the Federal Home Loan Banks. Similarly, the Federal Asset Disposition Association ("FADA") was created to assist

FSLIC with the liquidation of its large portfolio of problem assets and overcome its critical staffing shortage. The Board also conferred independent Office status on the former Division of Enforcement within the General Counsel's Office. We believe this reorganization will allow us to react even more quickly and aggressively to halt abusive practices which result in losses to the FSLIC. From a regulatory perspective, there has been a very positive impact from the new regulations regarding net worth, direct investment, and asset classification. The Board is also considering proposal of additional regulations to further strengthen net worth requirements and increasing its sensitivity to asset risk. Regulatory reforms covering acquisition, development, and construction ("ADC") loans are being studied. A possible revision of the liquidity regulations is also being studied. These added reforms could substantially reduce the number of problem institutions in the future.

The Board is also acting vigorously against embedded losses that already exist. I have issued a series of directives requiring immediate written notification to the new Office of Enforcement of any material violations of law, regulations or written agreements entered into with the Bank Board by insured institutions when detected by the supervisory agents in the field. That new Office has a greatly increased staff, and a mandate to be extremely aggressive in bringing such violations to a halt. Also whenever possible, we bring competent management in to manage financially troubled thrifts at the earliest possible juncture. We believe this Management Consignment Program ("MCP") offers real hope for preventing further growth of embedded losses. The Board is also aggressive in making criminal referrals whenever warranted, in bringing suit against the individuals who have caused thrifts to fail, and in seeking judicial orders freezing such persons'assets.

Recapitalization is clearly needed. Accordingly, we have substantially bolstered the resources of the FSLIC fund by imposing a supplementary premium for each of the last four quarters. Although, there was initial opposition by much of the industry, there is now widespread agreement that this action was essential. I look forward to working with Congress in formulating new methods of improving the capitalization of the insurance fund. While our present crisis is bad asset cases, we have not forgotten the scourge of interest rate mismatch of assets and liabilities. The Board has adopted several regulatory initiatives to encourage the industry to monitor and reduce its exposure to interest rate risk--which remains very large. We have been very fortunate that interest rates have fallen substantially. It is essential that the industry take advantage of this opportunity to restructure their portfolios now to minimize such risk in the future.

When I began to warn about these problems I was subjected to sharp criticism. When the Bank Board acted to curtail certain high risk activities the invective directed at us by some quarters of the thrift industry was extraordinary. We perservered and did what we felt was right. Today, I believe there is a strong consensus of the leadership of the industry that we were right to take the actions we did. With your support the Board will be able to continue resolving the problems of the thrift industry.

II. EXAMINATION AND SUPERVISION ACTIVITIES

A. Improvements in the examination and supervisory process and transfer of functions to the Federal Home Loan Banks

The severe financial crisis that has plagued the thrift industry over the past several years has taken its toll on the Bank Board's capacity to examine and supervise the institutions under its jurisdiction. During this time, we frequently have had to use our limited resources to handle only critical situations, rather than to engage in systematic, well-designed examination and supervision aimed at preserving the health of institutions. This situation, if allowed to continue, could destroy our ability to protect the safety and soundness of the thrift industry. Therefore, the Bank Board is taking positive and aggressive action to strengthen its examination and supervisory efforts.

As of July 6, 1985, the Bank Board transferred its field examination function to the Federal Home Loan Banks ("FHLBanks"). This historic move enabled us to pursue with all deliberate speed the building process of a well trained, effective, and efficient field examination force. By December 31, 1985, the number of examiner professionals on the staffs of the FHLBanks was increased from 747 to 1,003, an increase of 34.3 percent. Of this increase, 120 or 46.9 percent, were in the Atlanta, Dallas and San Francisco districts, where many of the most serious industry problems exist. The flexibility afforded by transfer of the examination function to the FHLBanks also has resulted in hiring not only of a substantial number of additional examiners but also in hiring of far better qualified candidates than was previously possible, many have attained advanced degrees and/or professional designations, such as Certified Public Accountant. The FHLBanks have been instructed to continue this increase in examination personnel. We have established an interim target of an additional 250 examiners by June 30, 1986, and expect to have a total of over 1,500 examiners by the end of 1986.

We have also more than doubled our supervisory staffs in the FHLBanks in the last eighteen months. We have issued instructions to continue this increase commensurate with the buildup of the examination staffs. Moreover, in 1985, we provided training to more than double the number of supervisory agents trained in 1984. I am pleased with the progress we are making, but this building process has just begun. More needs to be done, and will be done, to add to the quality and quantity of our examination and supervision efforts.

B. Supervision and Enforcement Actions/Directives

During 1985, the Bank Board issued a series of directives to its supervisory staff at the 12 Federal Home Loan Banks, prescribing that staff take firm corrective action in response to all material violations by insured institutions. I have attached to my testimony a summary of the supervisory directives issued between April 1984 and February 12, 1986. For serious problems that require a stronger response than a supervisory letter or supervisory agreement, the Bank Board directed that requests be made to Washington for formal enforcement action. As I mentioned earlier, as another step in its initiative to strengthen and improve the supervisory and enforcement process, the Bank Board created the Office of Enforcement in November 1985. Previously a Division in the Office of General Counsel, the Enforcement staff was redesignated as a separate Office of the Bank Board in order to expedite its actions on formal enforcement actions and, more importantly, give the enforcement process a higher priority at the agency and within the thrift industry.

This forceful approach to supervision and enforcement significantly increased the number of formal and informal enforcement actions and completed investigations in 1985 and, to date, in 1986. As the FHLBanks continue to increase both their examining and supervisory personnel, the number of requests coming to the Office of Enforcement inevitably will increase as well. Clearly, a significant increase will be required in the number of Enforcement attorneys and support staff, who remain government employees, to handle this growing level of referrals for formal investigations and formal enforcement actions.

III. FEDERAL SAVINGS AND LOAN INSURANCE CORPORATION (THE FSLIC)

A. Condition of the Fund

The primary goal of the FSLIC is to fully guarantee FSLIC-insured deposits, and to do so in a way that bolsters public confidence in America's financial institutions. The FSLIC insurance fund is the major resource applied towards this goal. The fund is the FSLIC's net worth, the amount by which the FSLIC's total assets exceed its total liabilities. At year-end 1985, the FSLIC's net worth, or total insurance reserves, was just over $6.0 billion. The ratio of reserves to insured members' deposits remained steady at about 0.72%. An abbreviated statement is shown below:

($ billions)	12/31/85	12/31/84
Total Assets	$10.48	$ 8.94
Total Liabilities	4.44	3.33
Total Reserves	$ 6.04	$ 5.61
Member deposits	$843.3	$784.7

Reserve ratio	0.72%	0.71%

FSLIC's total income in 1985 was $2.3 billion, increasing from $1.3 billion last year. The increase is almost exclusively attributed to additional premiums assessed by the Bank Board in 1985. Four quarterly special assessments of 1/32 of 1% of member deposits were declared, gathering the full additional 1/8 of 1% of deposits premium authorized under current law.

It is worth mentioning again at this time that the source of all FSLIC income is member premiums and the interest earned from FSLIC's investments in U.S. Treasury securities. The FSLIC does not use tax dollars. Its costs are totally borne by FSLIC insured institutions. The FSLIC is in essence, a thrift-funded, group insurance plan.

The FSLIC has the duty to deal with problem institutions in the least costly manner possible while fully protecting insured depositors. In performing this duty during 1985, FSLIC absorbed over $1.7 billion in case-related losses, but spent only $53.2 million for general overhead expenses. An additional $158.6 million was consumed in payment of interest to insured institutions holding FSLIC notes. Largely because of the Board's early action regarding the additional premium assessments, income kept ahead of expenses, and the FSLIC's net operating income in 1985 was a positive $396.5 million.

B. FSLIC Case Activity.

During 1985, the FSLIC implemented a total of 56 case actions, resolving 33, and placing 23 cases in the Management Consignment Program (MCP). The 56 cases involved assets of $22.2 billion, with costs to FSLIC of about $1.7 billion. The 1985 actions are summarized below:

Action	Cases	Assets ($millions)
Liquidations		
Cash-backed transfer of accounts	5	
Asset-backed transfer of accounts	3	
Cash paid to depositors	2	
Total liquidations	10	$ 2,157.8
Mergers	14	2,351.6
Acquisition by holding co's.	3	802.7
Acquisition by investor groups	5	436.7
Rehabilitation	1	752.7
Management Consignment Program	23	15,735.0
Totals	56	$22,236.5

In addition to the cases acted upon in 1985, the FSLIC's remaining caseload consists of 60 supervisory cases with assets of $11.8 billion and 2 "Phoenix" controlled associations with assets of $10.7 billion. The FSLIC is actively pursuing final resolutions for these cases and the 23 institutions in the Management Consignment Porgram.

C. Management Consignment Program.

The Management Consignment Program is a new tool used by the Bank Board for containment, evaluation, and possible rehabilitation of problem institutions. It is also meant to minimize the FSLIC's eventual solution costs. The program has been most useful thus far in handling large, troubled institutions whose bad asset problems have surfaced but not been fully defined. Assets and liabilities normally are passed through a receivership to a federal mutual structure to keep them in an operating entity. Day-to-day supervision is delegated to the Principal Supervisory Agent (PSA) in the relevant FHLbank district. The MCP entity operates under the watchful care of a highly qualified management group hired by the new institution with the PSA's approval, and with a board of directors approved by the Bank Board.

The principal advantage of the MCP is that it permits rapid supervisory action without the necessity of a final FSLIC case resolution (sale or liquidation), terminating behavior that brought the institution into insolvency while allowing time for a measured unwinding of affairs and close examination of the assets. Such a program also appears to stabilize the deposit outflow at each institution. Each MCP participant is in a holding pattern, with expert management imported from successful members of the thrift industry attempting to unravel its affairs and set it on a steady course. MCP institutions are usually not immediately marketable largely because of unknown asset quality or litigation in progress. Orderly marketing or rehabilitation eliminates more costly liquidation action and the entire process conserves the FSLIC's resources.

D. Federal Asset Disposition Association.

A significant initiative in 1985 was the formation in November of the Federal Asset Disposition Association (FADA), known in press reports as the "406 Corporation." FADA is a wholly-owned subsidiary of the FSLIC, and will engage in disposition and/or management of assets received by the FSLIC in case resolution actions. Only last month, FADA's Board of Directors selected a highly qualified Chief Executive Officer who is now gathering the staff necessary to begin FADA's operations.

There has been much speculation and misinformation about the Bank Board's plan for FADA. Let me set the record straight. Simply put, FADA will be a nonexclusive contractor for management and disposition of FSLIC assets. Whereas that function is now hampered by restraints on staffing and resource allocation, centralization within FADA should dramatically change this situation. FADA will be able to rapidly match hired talent to specific asset management problems, maximizing and accelerating the return of cash to the FSLIC. FADA is but another refinement in fulfilling the Bank Board obligation to protect FSLIC resources by operating in an efficient and cost-effective manner, prudently applying premium dollars to FSLIC problems.

E. Impact of Tax Legislation on FSLIC Costs.

The House of Representatives recently passed the Tax Reform Act of 1985 (the "Act"). The bill is now being considered by the Senate. The Act would repeal the special rules enacted in 1981 which generally permit tax-free treatment for acquisition of an insolvent thrift. Repeal of these rules could seriously affect the economics of acquiring troubled thrifts and significantly increase FSLIC costs in assisting such acquisitions. In addition, the present law providing for the tax-free treatment of FSLIC assistance payments would be repealed. This also would translate into a much greater cost to the FSLIC in resolving cases by merger or acquisition, which has generally proven to be much more cost-effective than liquidation. Given the enormous strains on the FSLIC Fund, we believe these portions of the Act are "pennywise and pound foolish". It is critical to eliminate them entirely. Alternatively, at the very least, any final bill should preserve the current rules until 1991, as the original Treasury Department tax plan requested. I have expressed these concerns to the appropriate Committees, and will continue to urge preservation of the current tax treatment of these thrift problem areas to protect the FSLIC's resources.

F. FSLIC Staffing.

I am pleased to report that the OMB has approved the requested FSLIC staff increase of 139 positions for fiscal year 1986, and to the extent these positions are funded by FSLIC's non-administrative funds, the FSLIC is in the process of hiring to its new staffing level at this time. We satisfactorily demonstrated to OMB our critical need for the increase, and I want to confirm that the need will continue. We expect to request further increases in FY 1987 as warranted by the projected caseload and the need to properly execute FSLIC's management responsibilities. Even with increased staffing levels, FSLIC remains severely weakened by the lack of experienced middle managers and by the lack of adequate Bank Board staff, who provide essential support to the FSLIC. As you know, long ago the Bank Board and the FSLIC consolidated support services in an effort to provide greater efficiency and economy to our operations. As a result, the FSLIC relies upon Bank Board offices for much of its staff and facilities, including legal, accounting, data processing, and other support. This is another reason why our supplemental budget request is so important to the FSLIC as well as to the Bank Board. In addition, the FSLIC has recently lost many of its most experienced and competent employees to higher paying positions in the private sector. While it is possible to partly compensate for lack of experience with numbers, the gap cannot be completely filled in that way. We will need continued support of the OMB, the Administration and the Congress as we strive to meet the enormous and unprecedented challenges that lie ahead.

IV. OVERALL BOARD COMPENSATION AND BENEFITS PROGRAM

Earlier in this testimony, I mentioned the recruitment and retention problems encountered by the Office of Examinations and Supervision and the Federal Savings and Loan Insurance Corporation. These problems are not limited to those offices, but in fact hamper our staffing capability throughout the Bank Board. Although we have come to expect these disadvantages in competing with the private sector, we are also suffering comparable disadvantages with respect to other financial regulatory agencies.

The Federal Reserve Board (FRB), the Federal Deposit Insurance Corporation (FDIC), and the Office of the Comptroller of the Currency (OCC) have compensation and benefit flexibility beyond the reach of the Bank Board. That flexibility enables these agencies to offer an employment package comparable to that found in many private sector enterprises. As a result, the Bank Board has been at a severe double disadvantage in competing for the badly needed top talent.

The key to this flexibility is exemption from the Classification Act, an exemption rooted in the enabling legislation of these other agencies. Although they generally follow the salary grades and pay ranges of the Classification Act (GS-1-15), the FRB, FDIC, and OCC have freedom to fix compensation of their employees and provide salary enhancements and benefit programs as they deem appropriate. The Bank Board is restricted in this regard by a previous interpretation of the Office of Personnel Management ("OPM") that our agency is subject to the Classification Act.

In terms of basic compensation, the Bank Board can routinely offer an applicant only the minimum salary at any grade level. The other financial regulatory agencies may exceed the minimum without first obtaining special approval. In setting the grade limits of particular occupations, the Bank Board is restricted by classification standards published by OPM (in many cases 15-20 years ago) while the other agencies can determine the value of their occupations according to current industry conditions. Further, in promoting individual employees, the Bank Board is restricted to narrowly defined increases rather than levels commensurate with employees' contributions.

The Bank Board suffers further disadvantages with regard to compensation enhancements. The FDIC, for example, annually grants each of its employees a regional pay differential over and above any Government-wide cost of living adjustment ("COLA"). The differential varies from year to year and from one geographic region to another, but all FDIC employees in 1985 received between approximately 2%-10% in addition to their base compensation. In 1986, while all Federal employees (including Bank Board staff) are faced with no COLAs, FDIC employees are receiving an increase of between 7%-20% in addition to their base pay.

Another disparity exists regarding bonuses. The FRB can grant a bonus to all of its officers each year for superior performance, and the OCC has a salary increment between 2% and 14% of basic pay. In contrast, OPM regulations governing Senior Executive Service (SES) performance bonuses restrict cash awards to 30%-35% of the Bank Board's career SES staff. Under a liberal OPM interpretation of these regulations in 1985, we were permitted to grant bonuses to only 3 of our career SES employees. Similarly, Bank Board mid-level managers and supervisors were restricted to performance awards of 2%-3% of basic pay given the limitations imposed by OPM regulations on employees subject to merit pay regulations.

In addition to the disparity between the Bank Board and the FRB, FDIC, and OCC in direct compensation and salary enhancements, these agencies also provide benefit programs far more liberal than standard Government benefit programs available at the Bank Board. Employees in these agencies can choose life insurance and health programs at little or no cost. Among those agencies, the highest cost for life insurance is 7 cents biweekly for $1,000 of basic coverage, whereas Bank Board employees pay 20 cents biweekly for $1,000 of basic coverage. The cost disparity in health coverage is even more striking. The highest cost for Blue Cross-Blue Shield maximum family coverage among these other agencies is $20.64 biweekly (FRB), where parallel coverage for Government Blue Cross-Blue Shield is $66.13 biweekly.

In addition, both the FRB and the FDIC offer employer-subsidized savings instruments for their employees. The FRB has both a thrift plan and a 401K plan in which the FRB will match 60 cents for every dollar contributed by an employee into these plans (up to a total of 6%). The FDIC provides a 401K plan in which it matches dollar for dollar employee contributions up to a total of 5%. The OCC has developed a thrift plan, but is awaiting final approval from the Treasury Department. The Bank Board, like other Federal agencies, has operated under the assumption that it may not offer such plans, although our Office of General Counsel is reexamining this question.

In view of these disparities, the Bank Board cannot realistically expect to compete successfully for the best talent in the marketplace, even when the competition is limited to other financial regulatory agencies. Moreover, even if we succeed in hiring the kind of candidates we need, the chances of retaining them are not high. Our overall turnover rate for the last two fiscal years was 27.2% and 20.2%, respectively. The latest available Government-wide turnover rates were 11.4% for FY 83 and 12.3% for FY 84. The impact of our turnover rate has been felt throughout the Board but loss of staff at the GS-13 level and above has been particularly critical. During the last three fiscal years, separations at the GS-13 level and above represented the following percentages of our total turnover: FY 83--51%, FY 84--24.9%, and FY--85 32%. In FY 85, loss of senior staff in three major policy offices was especially striking. The percentage of separations at the GS-13 level and above was 52% in the Office of the General Counsel, 39% in the Office of Examinations and Supervision, and 33% in the Federal Savings and Loan Insurance Corporation. While many of these employees are finding more lucrative positions in the private sector, some are leaving for comparable jobs with higher compensation at our sister financial regulatory agencies.

I intend to meet with the Director of the Office of Personnel Management, requesting an administrative determination exempting the Bank Board from the Classification Act and related compensation regulations. I have enlisted the support of the Office of Management and Budget in this effort, and I am awaiting what I hope will be a favorable response. Hopefully, the Board will not feel forced to have to request legislation to ensure hiring, compensation, and benefit parity between the Board and the other financial regulatory agencies.

V. REGULATORY DEVELOPMENTS

Last year I described several regulatory initiatives the Board had adopted to relieve strains on the stability of the industry and the FSLIC resulting from deregulation, undercapitalization and asset quality problems. Today I am pleased to give you a progress report on the impact of our far-reaching approach to slow high risk capital growth. In addition, during the past year the Board has undertaken a series of actions to modernize and bring greater stability to the industry through a wide array of regulatory efforts (including the FADA which I discussed earlier). I will briefly describe some of the Board's most significant regulatory achievements from our 1985 program. Later in my testimony I will also discuss those initiatives specifically designed to promote the infusion of capital into the industry.

A. Impact of Capital Growth Regulations

In 1984, the thrift industry was growing at nearly 20 percent a year; which meant it would double in size in four years. By contrast, commercial banks deposits were growing at well under 10 percent a year. Institutions experiencing rapid growth tended to make far more high risk investments when compared to the industry as a whole. In 1984, construction lending, historically associated with far greater credit risk than mortgage lending, accounted for less than six percent of the assets of institutions generally, but almost 25 percent of assets of those institutions which doubled in one year or less. ADC loans, the lending category with the highest level of credit risk, accounted for approximately 2 percent of thrift institutions' assets on average, but almost 13 percent for institutions growing rapidly. Direct investment in equity securities, real estate, and service corporations accounted for only about two percent of total institution assets, but over 10 percent for rapidly growing state-chartered institutions in California and Texas, the states with the most liberal asset limitations. Throughout 1984, direct investments by the industry increased at close to a 100 percent annual rate. At that rate of increase, the level of direct investments would have almost quadrupled in two years and increased sixteen-fold in four years.

Early last year the Bank Board took two major regulatory actions to reduce the risk exposure of the FSLIC. One amended the Board's net worth requirement to require higher net worth levels for institutions growing at rapid rates, to include an amount of net worth reflecting direct investment and to gradually phrase out the use of the five-year averaging and 20-year phase-in techniques previously permitted. The second adopted the direct investment rule, which requires prior supervisory approval for investments in equity securities, real estate and service corporations which exceed a certain threshhold level of an institution's assets.

The net worth regulation had a significant effect on industry operations last year. Overall growth in liabilities slowed from 19.4 percent in 1984 to 7.9 percent in 1985, as managers conformed to the new net worth requirements. Moreover, growth rates were reduced most sharply by institutions with low net worth ratios. During the first three quarters of last year, for example, growth in liabilities of institutions with net worth ratios of less than 1 percent was at an annualized rate of -4 percent, whereas it had been 21 percent in the comparable year-earlier period. The growth rate for firms with net worth ratios in the 1-3 percent range dropped from 26 to 4 percent. On the other hand, the growth rate for thrifts with net worth ratios above 5 percent dropped only from 13 to 11 percent. With regard to the requirement for added net worth based on direct investment, during the third quarter of last year, 67 firms were required to increase their net worth by an aggregate of $207 million because of the new requirement. The Board anticipates continued significant improvement in the industry as the result of both regulations, as the deceleration of higher risk capital growth continues.

B. Classification of Assets

On December 9, 1985, the Board adopted a final regulation on classification of assets. The prior classification system did not adequately identify credit weakness in commercial loans, where payment schedules and other indicia of "current" status are often of a different nature than non-commercial loans. The regulation applies to all loans except consumer loans and one-to-four family, owner-occupied mortgages.

Through this rule, the examination and supervision process may now categorize problem assets as "substandard," "doubtful" or "loss". When an examiner identifies an asset with enumerated demonstrable weaknesses, he or she may recommend that the asset be classified as "doubtful" or "loss" and the supervisory agent may specify a loss reserve. Based on the PSA's determination, such problem assets may ultimately require establishment of a specific reserve of 50 percent (for "doubtful" assets) and 100 percent (for "loss" assets). These reserves are drawn from the institution's net-worth accounts and thus lower the amount of an institution's actual regulatory net worth. Problem assets classified as "substandard" will be treated as scheduled items, and the institution's minimum net worth requrement will be increased to reflect 20 percent of such loans.

The classification of assets regulation enhances effective supervision by providing examiners the means to identify and address credit weaknesses in commercial loans; it closely parallels the classification method long used by the federal banking agencies.

C. Acquisition, Development and Construction Loans

After adopting the direct investment rule, the Bank Board moved to differentiate more accurately for reporting purposes between acquisition, development, and construction loans and direct equity investments, since many direct investments have been accounted for as ADC loans. Poorly underwritten loans for construction and development represent one of the major catalysts of FSLIC problems. The portfolios of most of our problem FSLIC cases are strewn with direct investments, often camouflauged as ADC loans gone sour. In reviewing supervisory cases I frequently see that many of our troubled major loans contain virtually no equity from the builder or developer. The only equity provided, and thus the only risk incurred, comes from the insured institution.

The industry standard loan-to-value ratio of 20 percent equity for the typical home loan stands in sharp contrast to the lack of equity participation from builders and developers. The disparity is even more disturbing considering that the underlying collateral in the homeowner loan is relatively liquid and the debt service is based on the homeowner's wages, as opposed to the illiquid and speculative nature of the ADC loans.

Accordingly, in 1985 the Board adopted a statement of accounting policy notifying the public that insured institutions are expected to apply standards of the American Institute of Certified Public Accountants which describe factors to be considered when determining whether a transaction characterized as an ADC loan is, in substance, a real estate investment or a joint venture. Moreover, the Board is currently considering the suggestion of our supervisory agents and others that we establish loan-to-value limits on ADC loans by regulation.

D. Acquisition of Control

During 1985, the Board undertook a major regulatory initiative to review its regulations under the Change in Savings and Loan Control Act ("Control Act") and the Savings and Loan Holding Company Act ("Holding Company Act"). Some of the major objectives in this review were to modify the regulations to (1) eliminate overlap, provide consistent definitions, and clarify the types of acquisitions covered by the relevant statutes; (2) define what constitutes acquisition of control and when an acquiring group is acting "in concert"; and (3) outline factors that would disqualify an entity from gaining control of an institution, thereby improving the FSLIC's ability to prevent dishonest or unqualified acquirers from gaining control of insured institutions.

The new acquisition of control regulation enhances the Board's ability to enforce the underlying statutes. The Board will now be provided with more information concerning potential acquirors. In addition, the regulation will put prospective acquirors on notice of factors that would raise concerns about their qualifications to acquire control of an insured institution. These factors should be a useful tool for the Board to oversee the acquisitions process so that changes in control will not have a detrimental effect on insured institutions, their depositors, and ultimately the FSLIC. During 1986 the Board expects to undertake a substantial effort to develop procedures to assure that the new rules are implemented on a thorough, consistent and expeditious basis.

E. Interstate Branching and Acquisition

The Board has proposed and published for comment two regulatory amendments affecting interstate branching by federal savings and loan associations. First, a limited regulation would encourage competition in the District of Columbia and contiguous states and improve the competitive position of federal associations based there by (1) permitting federal associations based in the District to branch in either Virginia or Maryland, but not both, and (2) permitting a federal association based in Virginia or Maryland to branch within the District.

The second regulatory proposal is more far-reaching, affecting both branching and acquisitions. It would provide, with respect to branching across state lines, general parity for a federal association with state-chartered thrift institutions of the state in which the federal association's home office is located. Accordingly, a federal association located in a state granting "regional compact" or "reciprocal" branching rights to its thrift institutions could exercise the same rights as a state association. A federal association in a holding company structure could exercise such "regional compact" or "reciprocal" rights, but only if no other FSLIC-insured institution within that structure possessed or exercised rights of this kind.

The general proposal would also break new ground in branching associated with acquisitions of failing FSLIC-insured institutions. The present regulation allows a federal association to branch in a state other than its own home office state if it acquires a failing FSLIC-insured institution in that other state. The proposal, however, would also permit, in selected FSLIC cases, "regional" branching rights to be obtained. A Federal association acquiring a failing institution could be permitted to branch within a region including as many as three states in addition to the state of the target institution or within a region defined by state laws on "regional compacts". The proposal should not be read as signalling a move by the Board toward unrestricted branching on a national or broad scale, even in supervisory cases. The Board is seeking to act with responsibility and moderation in an area in which some elements, such as "non-bank banks", now appear to be out of control, at least until Congress acts. In normal circumstances, the Board seeks to preserve parity between federal and state associations in branching. However, in the extraordinary circumstances of FSLIC rescue operations, the Board's primary goal is to reduce costs that failing institutions impose upon the FSLIC.

VI. LEGISLATIVE INITIATIVES

A. Bank Board Legislative Agenda

In 1982, The Garn-St Germain Act gave the thrift industry new and necessary flexibility to compete effectively in an emerging and fiercely competitive financial services environment. That Act provided federally-chartered thrifts with limited commercial lending and commercial real estate lending powers to enable them to shorten some of the asset maturities on their balance sheets and provide additional avenues of profitability at a time when most of their assets were in long-term, fixed-rate mortgages which were yielding less than their cost of money. The Garn-St Germain Act also established a tiered structure by which the FSLIC could alleviate pressures on the fund by rewarding interstate operating rights to any acquirors which chose through a bidding process to help lessen the cost of assistance provided by the FSLIC insurance fund to facilitate acquisitions and mergers of failing thrifts with healthy institutions.

Unfortunately, some confusion and misunderstanding about what Congress intended when it passed the Garn-St Germain Act persists. Specifically, several state legislatures have exceeded the confines of the activities that Congress deemed suitable for federally-chartered savings institutions to engage in all types of "entrepreneurial" endeavors, without protecting the federal insurance fund from the increased risk or providing adequate reforms in state insurance examination. We have asked Congress to examine closely the apparently unintended results of thrift deregulation which goes far beyond the intent of the Garn-St Germain Act.

S. 759 and S. 1167 and H.R. 1680 and H.R. 2444, companion bills introduced in 1985 at the request of the Board, have contained our major legislative goals for reform of the current structure for federally insured depository institutions. Currently, the Board is preparing an updated and refined proposal for submission to Congress.

First, the Board supports reform of the current flat-rate deposit premium structure. We have proposed to the Congress the best and most practical alternative plan we could devise to better price the risk of loss to the FSLIC for activities in which institutions choose to engage. As currently structured, FSLIC insurance coverage creates two perverse incentives for excessive risk-taking. Deposit insurance protection becomes an external substitute to the equity or risk capital of thrift institutions, creating a "moral hazard" in insurance terminology. When the financial risk arising from any course of action is shifted in whole or in part to another economic entity such as the FSLIC, the incentives to manage and control the risk are correspondingly reduced, giving rise to distortions in the market. The other perverse incentive results from the grant to thrifts by some states of investment powers far exceeding those available to federally-chartered institutions, requiring the FSLIC to underwrite a diversity and magnitude of risks never contemplated when the fund was created, and to underwrite it at the same price for all. As a result, the current structure offers an enormous incentive to troubled institutions to take "all-or-nothing" gambles at the FSLIC's expense.

The concept advanced by the Board in our legislative agenda for risk-related premiums would establish groupings of activities based on risk of loss, and subject them to appropriate risk premium pricing. Supplemental premium charges would be set in advance for each type of asset-based activity with higher charges for riskier activities and for institutions with the lowest net worth. Risk categories would be reviewed based on a revised quarterly reporting system designed to capture data for assets that exceed the risk covered by current insurance premiums. In 1986, once again, the initiative for a risk-based insurance plan will be part of the Board's legislative submission. As I mentioned in my testimony before the Senate Banking Committee on July 25, 1985, risk-based capital approaches to underwrite the risk of loss to the FSLIC also have merit and we are not at all adverse to such alternative approaches if the Congress deems them more appropriate.

The second prong of our legislative agenda would provide the Board with a wider array of strengthened enforcement tools to monitor risk-taking and avert substantial losses to the FSLIC fund by taking supervisory action before unsound practices have forced an institution into insolvency. Our proposal deals specifically with statutory language that has made expeditious enforcement action difficult in the past, and would grant new authority to halt new lending or other activities when there is a failure to maintain adequate books and records. The bills also strengthen our enforcement options by expanding the classes of affiliated persons and companies subject to the Bank Board's cease-and-desist and removal prohibition authority. When compared to the total number of insured institutions supervised by the Bank Board, the number that face formal enforcement actions each year is small, but the impact of out-dated statutes that hinder effective action in such cases is major, compelling us to seek legislative resolution.

Third, in order to preserve the basic home lending focus in the thrift regulatory structure, S. 1167 and H.R. 2444 would limit the activities of any FSLIC-insured institution to the following activities: (1) mortgage loans and other activities authorized for federal savings and loan associations; (2) business activities which multiple savings and loan holding companies may engage in under the National Housing Act and regulations of the FSLIC; and (3) such other services as the FSLIC may approve as a proper incident to the operation of insured institutions and not detrimental to the interests of savings accountholders.

Fourth, in our forthcoming submission, as in our 1985 bill, the Board will seek authority to regulate holding companies and FSLIC-insured institutions engaging in activities of an underwriter or market maker in equity securities or debt securities other than those secured by interests in real estate or that are eligible to be underwritten by national banks.

Fifth, the Board submission would establish a "qualified thrift lender" asset-composition test requiring a threshold percentage of assets in specific housing and housing-related investments and certain liquid assets, such as investments in mortgage-related securities. This asset composition test would create a benchmark for thrift eligibility for ownership by diversified companies, access to the Federal Home Loan Bank System advances, access by state-chartered thrifts to FSLIC deposit insurance, eligibility of federal associations for increased service corporation investment, and eligibility of holding companies for activities permitted unitary savings and loan holding companies.

Finally, the Board's 1986 legislative proposal will again seek to enhance the ability of the FSLIC to carry out its receivership and assistance duties more efficiently.

B. Non-bank Bank Loophole

The Board has consistantly supported eliminating the "non-bank bank" loophole, the gap in federal banking law through which banking institutions avoid the geographic and prudential safeguards of bank holding company laws by either accepting consumer deposits or making commercial loans, but not doing both. The loophole threatens the FSLIC's ability to use effectively its statutory authority to reward acquirers of failing thrifts with interstate franchise rights through the use of a bidding procedure. Congress enacted this reward authority as part of the Garn-St Germain Act to increase the FSLIC's flexibility to respond to supervisory problems and better husband its resources. Such flexibility for the FSLIC is a national priority that is more important today than ever before. As I indicated earlier in my testimony, the Board has, by our recent interstate branching proposals enhanced that flexibility in a careful, balanced manner.

Through uncontrolled "loophole" development, the non-bank bank phenomenon has virtually eliminated almost all incentives for banks and bank holding companies to obtain interstate rights, or for other corporations to acquire a depository institution by acquiring a weakened thrift. While it is impossible to know precisely what effect this loophole is having on the FSLIC's ability to resolve severe thrift problem cases, former potential bidders that were previously willing to negotiate seriously for inter-state operating rights have largely disappeared.

As recently as last month, the Supreme Court issued a long-awaited decision that returned the non-bank bank debate to Congress, where closing the loophole had been a legislative priority until court challenges had shifted the battle arena. In the Dimension case, by a vote of 8-0, the Court ruled that the Federal Reserve Board lacks authority to regulate or restrict non-bank banks. The decision has rejuvenated non-bank bank activity and, concomitantly, impaired the flexibility of the FSLIC. Although the Supreme Court confined its ruling to a finding that the Federal Reserve Board exceeded its rulemaking power, the Court offered a pointed invitation to Congress to close the loophole, perfect its statute, and regulate activities that are the functional equivalent of banking. Accordingly, the Board urges enactment of legislation to close the non-bank bank loophole as soon as possible.

VII. STATE OF THE THRIFT INDUSTRY

A. Statistical Overview of 1985

The substantial further decline in market interest rates last year and the generally wide spreads between yields on short-term and long-term debt instruments provided a generally favorable operating environment for the thrift industry. Most of the industry took advantage of this opportunity to restructure their asset-liability portfolios to reduce interest rate risk and improve profitability. A significant minority continued to incur large operating losses, however, and a much smaller minority encountered serious problems because of unsound lending and investment practices and ineffective or inappropriate portfolio restructuring.

Industry growth slowed sharply last year from the unsustainable and unsound pace of 1984, in part in response to the earlier-discussed revision to the Bank Board's net worth regulation. As stated earlier, liability growth in the aggregate slowed to 7.9 percent, from 19.4 percent in 1984, which had been the most rapid in nearly thirty years. Moreover, the reduced growth was concentrated in liabilities of a less desirable type. Balances in large denomination certificates, which tend to be more volatile and costly than retail deposit accounts, actually declined last year, and the reduction in net new borrowing was primarily in short-term reverse repurchase agreements.

Despite reduced liability growth last year, thrifts were able to increase their gross mortgage lending activity by 8 percent to $196 billion, and continued to be the largest source of home mortgage loans, funding additional lending activity by increased sales of mortgages in the secondary market and reduced acquisitions of security investments. The adjustable rate mortgage ("ARM") share of conventional home mortgage loans made by thrifts declined to 54 percent last year from 68 percent in 1984, as the drop in mortgage interest rates made fixed-rate loans more attractive to consumers. The 1985 proportion, however, was higher than the 42 percent ARM share in 1983. Moreover, even with reduction in ARM lending by thrifts last year they were able to substantially increase the proportion of ARM and balloon loans in their mortgage portfolios from 33 percent at yearend 1984 to 39 percent last September, which is the most recent data available. This, of course, reflected repayments and sales of fixed-rate loans, as well as the relative share of ARMs in new lending. The increase in ARM holdings, hedging and other asset/liability changes made by management reduced further the interest rate risk assumed by the industry last year. The ratio of the one-year cumulative hedged gap to total asset dropped from -35 percent at the end of 1984 to -28 percent last September.

B. Capital Enhancement Tools

1. Mutual to stock conversion

The Board gives high priority to administration of the mutual-to-stock conversion program under which FSLIC-insured thrifts may convert from the mutual to stock form of ownership. Mutual-to-stock conversions have proven to be a unique and extremely effective means of infusing needed capital into the thrift industry, and the capital raised through conversions now equals approximately 12% of the aggregate net worth of the entire industry. I have attached to my testimony a table depiciting the number of applications for conversions filed, approved and completed, for each year since 1972. The last column reflects the amount of capital raised by the converting associations.

Although the Bank Board adopted regulations to govern its mutual-to-stock conversion program in 1974, the Board continually has revised these regulations to meet both its goals and the industry's needs by providing substantial flexibility to the conversion process, and greatly expanding the industry's potential capital sources.

During 1985, the Board adopted certain amendments to the conversion regulations which streamlined the conversion process in significant areas. First, while affording suitable recognition of the rights of mutual accountholders, the Board adopted amendments to its regulations regarding the conversion proxy solicitation process to reduce the difficulties and minimize the substantial expense institutions encountered in obtaining the required 51% vote of its members in favor of conversion. Second, the Board adopted amendments to the modified conversion regulations that limited the subscription rights of accountholders where the converting institution has little or no net worth and clarified and simplified other aspects of the rules.

In 1985, the Board also proposed amendments to regulations governing voluntary supervisory conversion and modified conversions of mutual insured institutions to stock form. The purpose of the proposed amendments is to clarify several of the policies and interpretations of the Board, to expedite the processing of voluntary supervisory conversion and modified conversion applications, and facilitate the voluntary supervisory conversion procedures and encourage their use by insured institutions as capital-raising tools. The Board encourages the use of the voluntary supervisory conversion procedure as a means of capitalizing and rehabilitating insolvent and financially troubled insured institutions.

In addition, the Board proposed a statement of policy regarding multiple-step stock conversion, where an institution undertakes certain transactions related to a stock conversion which would occur subsequent to a loss of eligibility for FSLIC insurance of accounts. The proposed statement of policy would identify the regulatory provisions that the Board deems applicable to such transactions and the circumstances in which they apply. During 1986, the Board will undertake a comprehensive review of its current conversion regulations and seek to further expand the conversion program to allow a larger number of institutions to participate.

2. Finance Subsidiaries

In December 1985, the Board adopted a final rule amending its regulations pertaining to the establishment and operation of finance subsidiaries by Federal associations. Through this rule the Board permits Federal associations to issue securities through wholly-owned finance subsidiaries and collateralize those securities with assets or liabilities transferred from the parent association. While the amendments provide some additional flexibility for associations using such subsidiaries, they also reflect the Board's commitment to ensure adequate capital for the industry and the monitoring of interest-rate risk exposure. The amendments thus modified the relationship between parent and finance subsidiary by requiring all FSLIC-insured institutions to include in their computation of net-worth requirements the net proceeds of certain securities issuances through their finance subsidiaries.

The sole purpose of these finance subsidiaries is to issue securities that the parent association is or could be authorized to issue, and to remit the proceeds to its parent association. Finance subsidiaries are valuable tools of capital enhancement. As distinct corporate entities they provide a less expensive means of raising capital than by direct securities issuance of the parent associations. Through the changes made by the Board in 1985 we hope to facilitate the use of finance subsidiaries in a safe and sound manner, thereby providing institutions another flexible mechanism by which to operate effectively.

3. Developments at the Federal Home Loan Mortgage Corporation (Freddie Mac)

Freddie Mac's success as a pathfinder in the secondary mortgage market continued through 1985. The corporation pioneered in tapping new capital markets that resulted in additional mortgage funds for American's home buying public. The corporation also significantly refined and developed Freddie Mac's product line to further increase the flow of mortgage funds and provide thrifts with important new restructuring tools.

1985 saw the introduction to the European marketplace by Feddie Mac of the first pass-through security exclusively backed by newly originated multifamily mortgages. The $100 million European sale of the multifamily mortgage-backed security, more commonly known as a Mortgage Participation Certificate or PC, increased the source of funds available to develop and maintain critically needed rental housing in the U.S. Introduction of the multifamily PC also represents the first time a mortgage pass-through security was sold exclusively to international investors. The commitment volume for the multifamily Plan B mortgages backing these securities increased 467 percent from 1984 to 1985 while the purchase volume increased by 326 percent.

Freddie Mac followed the multifamily PC sale with a foreign-targeted sale of $350 million in Collateralized Mortgage Obligations (CMOs) backed by single-family loans. This was the first international CMO offering, representing Freddie Mac's commitment to finding new ways to tap capital markets and providing additional mortgage credit to American's home buying public.

Freddie Mac issued the first CMO to the marketplace in 1983. It was hailed as a major innovation and called in the financial press "mortgages by the slice." Since then, the CMO has been successfully replicated by others in the marketplace and has provided another restructuring tool for thrifts, as well as attracted new investors and capital to mortgage finance. Over 80 percent of the CMOs issued since Freddie Mac's introduction represent issuances by others.

In 1984, Freddie Mac recognized the increasing popularity of the 15-year mortgage when it introduced the first PC exclusively backed by these mortgages. 1985 saw tremendous growth in the 15-year mortgage market with Freddie Mac's commitment volume increasing by 614 percent and purchase volume by 672 percent since 1984, representing about one in every four mortgages purchased by Freddie Mac during the year. Over $6 billion in 15-year mortgage-backed securities have been issued since its introduction to the end of the 1985.

1985 also witnessed the introduction of Freddie Mac's rate-capped ARM purchase programs. While these programs got off to a relatively slow start in the first half of the year, commitment and purchase volume increased significantly during the last quarter of 1985. This increase was mainly due to several refinements in the program, making it more market driven. Freddie Mac went to a monthly as opposed to quarterly change in the program parameters for the 5/2 rate capped ARM program (2 percent annual interest rate cap and approximately 5 percent point life-of-loan cap), thus allowing its required net yield and life-of-loan ceiling rate to be more responsive to market interest rate changes. Also, a high margin variant of the 5/2 program was introduced which generated higher prices for seller/services and reduced the up-front points required of borrowers. These changes were reflected in a doubling of monthly commitment and purchase volume in the last two months of the year.

Following its tradition of successful product innovation, Freddie Mac announced a new second mortgage purchase program at the beginning of 1986. As a result of careful underwriting and program design, Freddie Mac is able to provide interest rates on second lien mortgages that match those of first lien mortgages. Freddie Mac hopes to have a security backed by these second mortgages ready for introduction to the market shortly. This program will greatly benefit thrifts by providing another qualified short-term restructuring tool and providing liquidity for fixed-rate second mortgage which are high yield assets with shorter maturities than 30-year fixed-rate first mortgages.

4. Bank System Debt Issuance

The FHLBanks issued record amounts of debt in 1985 to fund advances to members and refund maturing debt. The advances programs provide members with a complete spectrum of maturities from overnight to 10 years at all times. This enables them to choose the most suitable liabilities for asset liability matching, restructuring, or liquidity purposes. Total debt sold amounted to $53 billion. Approximately one half was consolidated bonds of maturities between six months and ten years averaging three years and was relatively close to Treasury issue, averaging less than twenty basis points above comparable maturities. These relatively low borrowing costs are passed on to the members as reasonably inexpensive advances.

In addition to publicly sold domestic debt, the Banks continually search for alternative sources to provide even lower rates and more flexibility in financing the Bank System's expanding needs. During 1985, the Banks placed $400 million debt privately with both domestic and Japanese investors at rates below comparable public issue. The Banks continue to explore alternative debt vehicles in the Eurobond and Japanese markets. Both fixed and floating rate instruments are being evaluated. The Banks will issue such debt when market conditions for a given instrument are favorable enough to provide significant costs savings to the Banks and attractive advances to members.

VIII. CONCLUSION

In summary, the thrift industry continues to recover, slowly, from historic losses brought about by recent inflation and severe high short-term interest rates and, more recently and ominously severe and widespread asset quality problems. However, such recovery will continue to be subject to the pressures of significant undercapitalization and the risks I have described in a new deregulated environment. These problems, in turn, have imposed unprecedented strains on the FSLIC Fund.

We at the Bank Board are devoting our energies to helping the industry find renewed health, so that it can maintain and expand its commitment to home ownership in America, while at the same time protecting the insurance fund from undue exposure to risk. Unfortunately, even with the transfer of certain functions to the FHLBank system and approval of a FY 1986 supplemental budget appropriation, we would remain severely understaffed. Moreover, the uncertainties of Gramm-Rudman-Hollings threaten to retard even those first steps towards attaining adequate resources. I hope you will assist us in our important mission by providing the Board with sufficient budget and personnel flexibility--so we can deal effectively with the critical situation facing the national thrift system under our jurisdiction today.

This concludes my prepared statement. I should note that this statement is not subject to clearance through the OMB and the Administration.

Thank you very much. I will be pleased to answer any questions.

MUTUAL-TO-STOCK CONVERSIONS
1972 - 1985

	FILED		APPROVED		COMPLETED	
Year	Yearly	Cumul Total	Yearly	Cumul Total	Number	Amount of Stock Sold (in millions)
1972-1974	31	31	0	0		
1975	6	37	6	6	1	1.3
1976	29	66	15	21	14	50.9
1977	25	91	10	31	14	29.6
1978	21	112	4	35	5	13.5
1979	42	154	17	52	15	114.4
1980	51	205	46	98	16	141.4
1981	57	262	39	137	37	126.6
1982	35	297	34	171	31	123.0
1983	115	412	108	279	83	2,734.0
1984	88	500	100	379	95	711.0
1985	52	507*	61	404**	76	1,384.0
			TOTAL		387	5,438.0

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* Adjusted for applications removed from the program.

** Thirty-six conversions were discontinued and the stock was not sold.

SUMMARY OF SUPERVISORY DIRECTIVES
APRIL 1984 - FEBRUARY 1986

April 12, 1984 -	Board issued memorandum to supervisory agents to take firm corrective action in response to every report of examination that revealed substantial problems. In preparation, Board noted the need to address problems with deficient recordkeeping and excessive growth.
August 9, 1985 -	Chairman Gray issued memorandum to PSAs urging prompt corrective action for all significant violations of law, regulations, agreements or all significant unsafe or unsound practices. Memo explained when supervisory agreements are appropriate and when cease-and-desist or removal actions should be requested. Memo also addressed annual audits, reporting requirements, and the need to make supervisory directives more specific.
August 23, 1985 - (later amended Sept. 4, 1985 and November 15, 1985)	Chairman Gray issued memorandum to PSAs directing that vigorous use be made of formal enforcement tools for all material violations. Memo required that notices be sent to the Office of Enforcement and the Chief of Staff for each material violation requesting formal enforcement action or advising why it is not necessary.
October 11, 1985 -	Cover memo from Chairman Gray to the PSAs, attaching F. Passarelli's October 11, 1985 memorandum, SP-62, concerning supervision of S&L's failing their net worth requirement.
October 11, 1985 -	Memorandum from F. Passarelli addressing institutions that fail their growth restrictions (12 C.F.R. § 563.13-1).
October 11, 1985 -	Memorandum from F. Passarelli addressing institutions that have high concentrations of high-risk loans.
December 2, 1985 -	Chairman Gray issued memorandum to PSA emphasizing high priority for his August 23rd directive on enforcement actions. Repeats that any material violations must result in immediate request for C&D order or an explanation of the reasons why a C&D is not being requested.

February 12, 1986 - Cover memorandum from Chairman Gray to the PSA, with copies to all professional examination and supervision staff, attaching F. Passarelli's memorandum, both dated February 12, 1986, addressing the importance of Interim Examination Reports. The Chairman highlights special attention for de novo institutions and contractual arrangements or agreements by controlling parties at insured institutions.

Federal Home Loan Bank Board

NEWS

FEDERAL HOME LOAN BANK SYSTEM FEDERAL HOME LOAN MORTGAGE CORPORATION FEDERAL SAVINGS & LOAN INSURANCE CORPORATION

1700 G Street, N.W., Washington, D.C. 20552 Telephone (202) 377-6823

FOR IMMEDIATE RELEASE
THURSDAY, JANUARY 2, 1986

For more information
(202) 377-6677

SAHEDI APPOINTED BANK BOARD'S ACTING DIRECTOR OF POLICY, ECONOMIC RESEARCH

Federal Home Loan Bank Board Chairman Edwin J. Gray today announced the appointment of Robert J. Sahedi as Acting Director of the Bank Board's Office of Policy and Economic Research, effective January 4, 1986.

Sahedi, 37, succeeds Eric I. Hemel, who is resigning to accept a position in the private sector after having been director of the office since June 1, 1983.

Sahedi will retain his title of Manager of Financial Planning for the Office of Finance of the Federal Home Loan Banks during the interim appointment.

The Office of Policy and Economic Research is responsible for formulating major policy initiatives for the Bank Board and analyzing key trends in the savings institutions industry.

Before assuming his responsibilities with the Office of Finance in May 1981, Sahedi for three years was Manager of Business Analysis in the Office of Corporate Planning and Business Analysis of the Federal National Mortgage Association, Washington, D.C.

From 1973-78, he held key staff positions at the U.S. Department of Housing and Urban Development (HUD).

He was one of four persons selected in a nationwide competition to serve as a Management Fellow in the Office of Emergency Preparedness, Executive Office of the President, in 1972-73.

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Sahedi, who lives in Olney, Maryland, was graduated from the University of Toledo in 1970. He received master's degrees in Corporate Finance in 1972 and Urban Economics in 1973 from the University of Cincinnati.

He is a member of the National Economists Club and the Washington Area Money Managers Association.

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TUESDAY, DECEMBER 3, 1985

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BANK BOARD NAMES ACTING GENERAL COUNSEL, TWO OTHERS TO LEGAL STAFF

Federal Home Loan Bank Board Chairman Edwin J. Gray today announced the appointment of Harry W. Quillian as Acting General Counsel to the Board, effective December 20, 1985.

Mr. Quillian, who is presently the Bank Board's Acting Deputy General Counsel for Policy and Corporate Structure, will succeed Norman H. Raiden, who is returning to the private sector. Mr. Raiden became Federal Home Loan Bank Board General Counsel in December 1983.

Chairman Gray also announced the appointments of Ms. Julie L. Williams, as Acting Deputy General Counsel for Policy and Corporate Structure, and of William K. Black, as Senior Associate General Counsel and Director of Litigation and Special Projects. Ms. Williams joined the Bank Board's legal staff in 1983 and currently serves as Associate General Counsel and Director of the Corporate and Securities Division. Mr. Black has been Associate General Counsel and Director of the Bank Board's Litigation Division since 1984.

Ms. Williams' appointment is effective December 20. Mr. Black's appointment is effective immediately.

Harry W. Quillian

Mr. Quillian, 47, is a resident of Washington, DC. A 1960 graduate of Dartmouth College, he took his law degree from George Washington University in 1968. He was admitted to the District of Columbia Bar in 1969 and to the State of Ohio Bar in 1973.

(MORE)

He served as a member of the Bank Board's Office of General Counsel three times: from 1969-72, as an attorney in the Opinions Division; from 1974-79, as an attorney and as Associate General Counsel and Director of the Regulations Division; and from March 1985 (until his designation last week as Acting Deputy General Counsel) as Special Counsel in the Office of General Counsel.

Mr. Quillian served as Legal Assistant to Commissioner Anne P. Jones of the Federal Communications Commission from 1979-83, and was Assistant General Counsel to the Commission in 1983-84. He was an Associate in the Columbus, Ohio, law firm of Teaford & Bernard from 1972-74, and was Special Counsel to the Washington, D.C., firm of Sutherland, Asbill & Brennan from April 1984 until March 1985.

Mr. Quillian was a U.S. Foreign Service Officer from 1965-68. He was a member of the Army National Guard and Army Reserve from 1960-64, and served in the Marine Corps Reserve from 1958-60.

Julie L. Williams

Ms. Williams graduated from Goddard College in 1971, following studies in Athens, Greece, and at Oxford University, England. She took her law degree at Antioch School of Law in 1975. Before joining the Bank Board's legal staff in 1983, she was associated with the Washington, D.C., law firm of Fried, Frank, Harris, Shriver & Kampelman, where she practiced in the financial institutions and securities area.

She is the author of numerous papers and articles on savings and loan, banking and securities law matters, and has lectured on those and related topics at various conferences and law schools.

William K. Black

Mr. Black, 34, is a 1973 graduate of the University of Michigan, where he also received his law degree in 1976. He was an associate in the Washington, D.C., office of the law firm of Squire, Sanders & Dempsey from 1976-80. Mr. Black served as a trial attorney in the Civil Division (Federal Programs Branch) of the Justice Department in 1980-81 and returned to Squire, Sanders & Dempsey in 1981. He left the firm in 1984 to become Associate General Counsel and Director of Litigation for the Bank Board in Washington.

# # # #

Biographical Sketch

FRANCIS M. PASSARELLI

Born and raised in Western Maryland. Attended St. Francis College, Loretto, Pennsylvania. Received a B.S. in Accounting.

Joined the staff of the Federal Home Loan Bank Board in 1951 as an examiner in the Atlanta District. In January, 1961, was appointed to the position of Assistant Chief Examiner in charge of the Baltimore-Washington-Richmond area.

Assumed position of Assistant Deputy Director, Office of Examinations and Supervision, in June 1968.

Appointed Associate Director, Regulations/Policy, Office of Examinations and Supervision, in March 1976.

Appointed Deputy Director-Policy, Office of Examinations and Supervision, in May 1985.

Appointed Acting Director, Office of Examinations and Supervision, in September 1985.

Mr. Passarelli is married and has one daughter.

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FOR IMMEDIATE RELEASE
November 21, 1985

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BANK BOARD CHAIRMAN GRAY APPOINTS VIGNA AS ACTING DIRECTOR OF THE FSLIC

Federal Home Loan Bank Board Chairman Edwin J. Gray today announced the appointment of Angelo A. Vigna of New York as Acting Director of the Office of the Federal Savings and Loan Insurance Corporation (FSLIC).

Mr. Vigna, Executive Vice President of the Federal Home Loan Bank of New York, will succeed Peter Ogden Stearns, who is leaving the post to return to the private sector.

Mr. Vigna, whose appointment is effective tomorrow, has been on the staff of the Federal Home Loan Bank of New York since 1968 and was an FDIC field examiner from 1964-68.

A 1975 graduate of the Indiana University Graduate School of Savings and Loan in Bloomington, Mr. Vigna received his B.S. degree from St. Peter's College in 1963.

As Executive Vice President of the Federal Home Loan Bank of New York and Chief Supervisory Agent of the Bank Board's 2nd District (which includes New York, New Jersey, Puerto Rico and the Virgin Islands), Mr. Vigna is responsible for the management and administration of the Bank's Agency Functions Division which handles all matters of supervision and applications. He will retain his titles at the New York FHLBank because he will be serving as head of the Office of the FSLIC on an interim basis during the next few months.

The Office of the FSLIC reports to the Bank Board which serves as operating head of the FSLIC.

Mr. Vigna resides in Montclair, New Jersey.

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In his October 23 letter of resignation to Chairman Gray, Mr. Stearns said:

> "I thought it appropriate at this time to inform you officially of my intended resignation as Director, Federal Savings and Loan Insurance Corporation effective December 1, 1985. Because of Thanksgiving, my final day in the office will be November 21.
>
> "Expressed as an understatement, this has been a sixteen month experience! Working under a continual crisis atmosphere, you have done an exemplary job, and I only hope that the Thrift Industry some day appreciates the herculean effort you have expended on their behalf.
>
> "Again, it has been a real pleasure working with you, and I sincerely hope that we can continue our personal relationship for many years in the future."

# # # # #

(Editor's Note: Chairman Gray's response to Stearns' resignation letter is attached.)

FEDERAL HOME LOAN BANK BOARD

BIOGRAPHICAL NOTES

Name - William R. Casey

Birth Date - 6/14/44

Place of Birth - Ozark, Alabama

Wife - Kristine H. Casey

Children - Sara (12), Ellen (8), Laura (4)

Present Residence - Alexandria, Virginia

Position Title and Description:

Director of Personnel - Provides overall direction to the development, administration, and evaluation of the Bank Board's Personnel operations, programs, and policies. Serves as advisor to agency managers on all issues affecting Bank Board employees. Responsible for agency labor-relations activities and Personnel security programs.

Professional History:

Equal Employment Opportunity commission - Compliance Officer	1970-1973
Federal Home Loan Bank Board - EEO Officer	1973-1976
Federal Home Loan Bank Board - Chief, Career Development Branch	1976-1978
Federal Home Loan Bank Board - Chief, Personnel Operations Branch	1978-1980
Federal Home Loan Bank Board - Deputy Director of Personnel	1980-1985
Federal Home Loan Bank Board - Director of Personnel	1985-present

Educational Background:

Villanova University - 1967 BA (Philosophy)

Augustinian College - 1972 MA (Theology)

University of Southern California (Washington Public Affairs Center) - 1982 MPA

Signature:

INCREASED EXAMINER WORK FORCE

Mr. **Boland**. Don, do you want to add anything?

Mr. **Hovde**. No. I just again wish to express my appreciation to you and this committee for what the Chairman said a year ago was the signal to us to proceed ahead with the transfer of 750 examiners to the Federal Home Loan Banks. May I say—and I chaired that task force—that of those 750, only about 30 decided not to go along with it. Many of those retired from Government or retired altogether because they were of that age.

Some examiners went to the private sector and a few kept their Civil Service status, so it was less than five percent. The most significant part of it is we have so dramatically increased our examination/supervision capacity, our cycle of examinations, our early warning and alert systems, to troubled institutions without which I think we probably would have almost been near the posture of sending the keys across the street had we not done that. I thank you for that.

Mr. **Boland**. I think that is true. You can't solve the problems the S&Ls have without personnel. What is the cycle of examinations now?

Mr. **Gray**. Well, the cycle varies by institution and also varies by district.

Mr. **Hovde**. And by ratings.

Mr. **Gray**. And by ratings. The cycle will change as we continue this program to get more examiners. Remember, we are only now with a lot of trainees up to a thousand because we have done that in six months from the time we have made that change.

Mr. **Boland**. What is the average salary of an examiner?

Mr. **Gray**. It was $25,000 before and the minimum entry level salary was $14,390. Now the minimum entry level salary under our scheme is $21,000.

Mr. **Hovde**. I would estimate, Mr. Chairman, somewhere in the neighborhood of $35,000, though I can't validate that at the moment.

Ms. **Fairbanks**. We can get that.

Mr. **Gray**. We will provide that for the record.

[The information follows:]

Examiner Salary

The average salary of an examiner is currently $30,542; however, examiners with more than 1 year's experience average $34,804.

Mr. **Boland**. Mary, do you have anything to add?

Ms. **Grigsby**. No. The only thing I did want to say is that from the industry point of view they appreciate the better examinations, too, because they are more complete and they will be shorter. If you have more examiners, you don't have to stay there as long; so from the industry point of view, they appreciate what has been done.

Mr. **Gray**. If you have better examiners, it will take a shorter time, too.

SUMMARY OF BUDGET REQUEST

Mr. **Boland**. Let me just go over some of the figures you have here. In 1987 you are requesting $32,193,000 for administrative expenses. Your request is for 587 FTEs in 1987, as compared to 558 in 1986; the difference in administrative expenses from 1986 to 1987 is $3,043,000. You have a supplemental request of $3,429,000. That is reflected in the figures that I just gave. I understand that the Gramm-Rudman-Hollings figure is offset by the supplemental request of $3,429,000.

Reading the last sentence of your statement it was not clear, but, the statement does not require clearance by OMB, does it?

Mr. **Gray**. No. We are an independent regulatory agency still.

STATE OF THE THRIFT INDUSTRY

Mr. **Boland**. As I am reading your statement, perhaps one can catch the feeling that this is a good news/bad news statement. There is some good news in it, and of course, there is some bad news in it. On the one hand, interest rates were lower last year, profits doubled and the industry is growing.

At the same time, however, 1985 brought record insolvencies and unprecedented strains as you have indicated, and everyone else has too, on the FSLIC. Is there any explanation to this dichotomy at all?

Mr. **Gray**. Well, I think part of it goes back to the 1981/83 period when the S&L industry had the biggest problem in its history when the cost of money exceeded the yield on mortgages. There are a lot of reasons for that, not the least of which was the fact that our institutions were not able to make true adjustable rate mortgages in order to bring into closer balance asset and liability maturity.

When we moved into this deregulated environment beginning in early 1983, after the passage of the Garn-St Germain Act, federally chartered savings institutions had a great deal more freedom both on the liability and asset side.

For that matter, federally insured State chartered institutions in certain States were given vastly greater asset powers than were provided by Garn-St Germain for federally chartered institutions. Now, some institutions demonstrated that they knew how to use those powers and they had the management to use those powers effectively.

They also were able to begin the restructuring of their portfolios both to deal with credit risks, but particularly interest rate risks. And rates have gone down and the level of interest rates, of course, is very, very important to our hyper-interest-rate-sensitive industry that we regulate. As rates went down, this gave the industry the opportunity to both enhance their restructuring efforts and to deal with portfolio problems that they had, particularly on the asset side, and to combine those with the new powers both on the asset and liability side.

Now, the good managers who were able to take advantage of all of this and these rates have been, as you indicated, in the best of all worlds and have been able to earn some 4 billion plus dollars; if it were not for the special assessment for FSLIC, earnings would actually be $5 billion.

DEMANDS ON THE FSLIC

Other institutions through a combination of many things, poor investments, institutions that did not act prudently. They, for example, went to the money market for more money than they needed, they threw too much money at what turns out to be too few good assets which have gone sour in the meantime, find themselves among that group that is in the worst of all worlds and we are in that worst of all worlds at the FSLIC at this point.

There are a lot of factors which have contributed to it. It is a reality. It is one that we have to deal with and is one that the Bank Board as head of the FSLIC has to work through over a period of time given the fact that our resources are limited and finite. Our resources will continue, so far as I can see, to be limited and finite for some time to come.

But at the same time, it is important that our healthy institutions go on through proven actions to remain healthy and to build up their strength, particularly their net worth which is nothing more than reserves against losses so that the FSLIC does not ultimately have to be the loss reserve because the FSLIC again is limited and finite in its reserves and resources.

It is important, particularly in this period when interest rates are at and have remained at moderate levels for some time and hopefully will continue to be at those levels, that institutions take advantage of this window, again, to restructure their portfolios and during the same period of time build up their strength. We want to see this industry, in fact, regain capital strength. In many ways, we are trying to enhance the possibilities.

For example, about three quarters of our institutions are still in mutual form. But to show you the importance of converting from mutual stock as a means of gaining capital last year, 57 of our institutions converted to stock form. The new capital that this brought in was almost a billion dollars for just 57 institutions.

We are continuing to try to streamline our process in order to develop continued incentives for institutions to convert and bring in new capital. That is the secret to our future and we continue.

TROUBLED THRIFT INSTITUTIONS

Mr. **Boland**. Your statement makes it pretty clear that threats to the system itself come primarily from poor asset quality. I think you have indicated that in your statement and you indicate it now.

Mr. **Gray**. That is right.

Mr. **Boland**. Let me ask, also, I think the statement indicates that up to ten percent of all savings and loans are insolvent or at the brink of insolvency at the present time. How did so many get in trouble?

Mr. **Gray**. I would say that most all of the troubled S&L's got into that kind of trouble because they grew excessively, they leveraged off too little net worth, they took too many chances. That is, they involved themselves in investments that turned out to be too risky. In the end the investments that they made went sour.

That was what we call poor asset quality in the portfolio, these non-performing loans and investments that go sour. It is unfortunately in too many cases, greed, some fraud we find, some criminal activity occasionally which we refer to the Justice Department, but in too many cases it has been the unwillingness of these institutions to act prudently.

Mr. **Passarelli**. I think another point is a lot of poor underwriting. I think that is the problem with many loans: poor underwriting and a lack of adequate records. I think what they have done, they had so many investments they didn't provide the prudent underwriting necessary connected with a lot of these investments.

Mr. **Boland**. That has certainly been a problem with a number of institutions in this area.

Mr. **Hovde**. If I may respond, I think the real estate economy and market place also has been a significant factor here. First, as it relates to poor underwriting, what happened in the disintermediation time period of 1980, 1981 and 1982 where mortgage funds were established, mortgage windows were closed, all of a sudden along comes the Garn-St Germain Act which allows assets flexibility and the economy turned there early in 1983.

All of a sudden there was over $100 billion that flooded into the industry in 1983. Coming from a time period of starvation of funds to one of a plethora of funds, many institutions threw caution to the winds. At the same time, the pendulum in the real estate economy swung. It particularly has to be of interest to you from the New England States and to Congressman Bill Green from New York, because what was in vogue in the late seventies, early eighties, namely, the sun belt areas from California, Arizona, Texas, Louisiana and Florida. Where all the action is today is the New England area and the New York area and there are only two areas of the country that are having significant home price increases.

Where the rest of the country is flat, not only has disinflation taken place, but in many cases deflation. It is not only true in the single family housing market, it is true across the entire spectrum of every real estate product. So the failures that we are seeing for all the reasons that the Chairman and Mr. Passarelli have stated are only exacerbated in the market places of those sun belt States.

INSOLVENCIES

Mr. **Boland**. What do the assets amount to for 'those insolvent thrifts?

Mr. **Gray**. By insolvent thrifts, are you not talking about ones that are projected to be insolvent within a year? Are you talking about ones that are now insolvent?

Mr. **Boland**. Yes. Is 90 billion too high?

Mr. **Sahadi**. Too high? No. That would be GAAP insolvent.

Mr. **Boland**. The average cost of FSLIC for liquidating S&L failures is around 15 percent of the asset value; is that correct?

Mr. **Vigna**. I think it was a little higher for last year, around 17 percent range on average.

Mr. **Boland**. Looking at the value of the failing thrifts and also the liquidation costs for FSLIC, is it possible that the potential demands on the FSLIC fund could be up to $15 billion?

Mr. **Vigna**. Yes, it could, Mr. Chairman, but I think you have to keep in mind with these $90 billion in assets that a number of these cases can be resolved without assistance. We are talking about GAAP insolvencies. Some of them are insolvent on a GAAP basis simply because they use some of the Board's accounting procedures. For example, we have institutions that will show a GAAP negative net worth because they sold assets and deferred losses for the purpose of restructuring their balance sheets and improving their GAAP position.

So, over time, if interest rates move up, these institutions will be less sensitive to interest rates and will have a better chance of becoming viable or surviving. So I don't think it is appropriate just to look at the $90 billion number and apply this 17 percent factor.

FSLIC INSURANCE RESERVES

Mr. **Boland**. Let me ask about the reserve. On page five of your statement there is an indication that the total balance in FSLIC at the end of the calendar year 1985 was just over $6 billion. That includes the additional $1 billion as a result of the increase in premiums that the Board levied last year.

What do you project the total FSLIC reserve to be this time next year?

Mr. **Gray**. This time next year? Let me call on Mr. Vigna and Mr. Neuberger.

Mr. **Neuberger**. Again, it is based on the assumption of how many cases we are going to be able to resolve but we feel through acquisition, mergers, and liquidation we can resolve 60 to 70 cases this year. The number would be somewhat higher than $5 billion but, again, it is based on an assumption of how many cases we are going to be able to solve and present percent cost of resolution.

Mr. **Gray**. That is to say, I believe, we obviously have to budget our ability to deal with these cases relative to the resources available.

Mr. **Boland**. What are the uncommitted reserves of FSLIC now that can be used for whatever problems that might arise?

Mr. **Gray**. Well, if you are talking about the Government accounting way of determining unobligated reserves, it is $2.7 billion.

Mr. **Boland**. All right.

Mr. **Hovde**. Actually, the reserves we can actually use, Mr. Chairman, are $6 billion, as of this date. The unobligated balance figures are arrived at by the calculation of short term assets minus all liabilities both short and long term.

Mr. **Boland**. Which comes to what then, Don?

Mr. **Hovde**. Which comes to the unobligated balance of $2.7 billion. In the primary and secondary cash reserves, the uncommitted amount is slightly over six billion at this time.

Mr. **Boland**. When you testified before the House Banking Committee last October, about four months ago, you indicated that the uncommitted FSLIC reserve was about $3.2 billion. Why has that figure dropped so rapidly?

Mr. **Gray**. Well, that can vary from quarter to quarter because each quarter you are getting $250 million in just from the special assessment. Then, of course, you have your regular assessments, regular premiums that are coming in plus your investment income that is coming in over time.

The figure depends on when the new premium and investment income comes into the fund relative to the cost of dealing with problems as they are accounted for with respect to the unobligated balance.

Mr. **Hovde**. On average, we have $600 million coming in of new revenue per quarter.

SUPPLEMENTAL INSURANCE PREMIUM

Mr. **Boland**. Do you intend to continue the supplementary premium for the rest of the year?

Mr. **Gray**. Yes. We have no choice.

FSLIC ASSISTANCE AGREEMENTS

Mr. **Green**. On page F-2 you show fiscal year 1987 provision for losses at FSLIC of only $70 million. Is that realistic given the kind of picture you are painting?

Mr. **Pittman**. That is the provision for losses on contribution agreements and reflects the historical cases as well as new ones that we may have to bring on during the current year.

Mr. **Green**. That is coming way down year-by-year according to this table.

Mr. **Hovde**. Because the new cases, Congressman Green, are a bad asset situation rather than a negative spread, the assistance agreement comes in more when we have negative spread cases so that figure is dropping. Most of those assistance agreements have already been reserved for which we can annually tap and bring back out.

Mr. **Neuberger**. I might add, a decline in the inflation rates this past year allows us to adjust downward due to lower interest rates spread on those assistance agreements that we have.

FSLIC BORROWING AUTHORITIES

Mr. **Boland**. If worse comes to worse and the FSLIC balance is depleted despite the supplementary premiums, how can the FSLIC fund be augmented? Is there a mechanism to borrow from the 12 district banks?

Mr. **Gray**. Yes, there is and there is also a line of credit to the Treasury that exists at the level of $750 million.

Mr. **Boland**. How much is available? Is that the amount that is available within the 12 district banks?

Mr. **Hovde**. There is a long-standing $4 billion line of credit with the district Federal Home Loan Banks. The FSLIC also has a $750 million line of credit with the U.S. Treasury. Finally, the Garn-St Germain Act authorizes the FSLIC to borrow from the Federal Home Loan Banks to assist FSLIC in carrying out its default prevention or liquidation activities connected with financially troubled insured institutions. Currently, the district banks have approximately $10 billion in capital and reserves which could be made available for this purpose.

Mr. **Boland**. Does FSLIC have the authority to borrow from the Treasury?

Mr. **Gray**. Yes, it does.

Ms. **Grigsby**. $750 million.

COST OF CASES TO FSLIC

Mr. **Boland**. On page 6 of your statement, it summarizes FSLIC case activity in 1985, showing 33 cases were resolved. Those 33 cases represented about $6.5 billion in assets. What is the actual cost of the FSLIC fund to resolve them?

Mr. **Vigna**. In 1985, approximately $1.7 billion.

MANAGEMENT CONSIGNMENT PROGRAM

Mr. **Boland**. Then an additional 23 cases representing over $15 billion were placed in the "management consignment program." Will you explain? That is, as I understand from reading your statement, a relatively new program, is it not?

Mr. **Gray**. Yes, it is.

Mr. **Boland**. Do you want to tell us a little bit about it?

Mr. **Gray**. Sure. We established that last spring. The first savings and loan in the program was one Beverly Hills Savings and Loan in California which found itself as the result of an audit to have one day been something like $60 million solvent and the next day $60 million insolvent.

So we had to deal with that problem immediately. We took that institution, a stock-held institution, into receivership and immediately created a new mutual institution. We appointed a board of directors to direct the institution and, in fact, brought in a management consignment group or team from, in this case, First Nationwide Savings in San Francisco.

The idea was that we had an institution in distress and we needed to stabilize the situation. We needed to bring in new management under different circumstances, hence the mutuality of the new institution. We needed to get a better handle on the nature of the asset and liability portfolio, the nature of the management of the institution, and so forth, which we have done. There have been a number of other institutions which have joined in this program because, clearly, the resources of the FSLIC, when an institution finds itself in distress to deal with it summarily, are simply not sufficient. In bringing in new management and a board of directors that can provide the kind of guidance along with the management to that institution operating in effect under the aegis of the FSLIC and the Bank Board, we have a more orderly way of dealing with that problem over a period of time.

Mr. **Boland**. This sounds something like a holding tank operation for problem institutions; is that right? The management consignment program does not last for any——

Mr. **Gray**. It is not eternal, not at all, no.

Mr. **Boland**. Are all of the 23 cases that we have talked about insolvent institutions?

Mr. **Gray**. I believe they are, yes.

Mr. **Vigna**. Yes.

Mr. **Boland**. Bill?

FEDERAL ASSET DISPOSITION ASSOCIATION

Mr. **Green**. How does this relate to the Federal Asset Management Corporation?

Mr. **Gray**. Federal Asset Disposition Association. FADA is a federally chartered savings and loan association chartered by the Bank Board under section 406 of the National Housing Act to assist the FSLIC in liquidating assets which the FSLIC now holds in one way or another. The Federal Home Loan Bank Board, after considering alternatives for dealing with the assets that it holds, both in FSLIC, for receiverships and even in effect out in the Management Consignment Program, decided to exercise our authorities under the law. We chartered, in November 1985, an association with a board of directors of 11 individuals, nine of whom are in the savings and loan business. These individuals have a great stake in this system and the health of the FSLIC because of their geographically dispersed premium payments from around the country.

There are another three members of that board of directors who are ex officio, including the director of the FSLIC, a president of the Federal Home Loan Banks and the CEO of FADA, whom the Board of Directors of FADA have just selected, a woman from San Francisco, Roslyn Payne. She brings a great deal of expertise to FADA.

This association will go into business now that the Chief Executive Officer has been selected. It is being capitalized by the FSLIC. It is not an exclusive kind of agent for the FSLIC. It does not buy and sell and take title to assets. It acts as an agent for the FSLIC, a non-exclusive agent at that. We believe that it holds a great deal of promise because of the kind of expertise that this association can bring in which we have not been able to get at the FSLIC. Nor do I think we could even expect to be able to attract the kind of talent needed and the expertise needed which is very specialized in the real estate area. FADA will have this expertise.

They will have offices in geographical areas in the southwest, the west and the southeast.

Mr. **Quillian**. Mr. Chairman, if I may, in a nutshell, the associations of the MCP program are full service institutions which are successors to insolvent associations. They are in something of a holding pattern. It is a program to stabilize those institutions and make further decisions down the road.

FADA is a limited purpose institution chartered under the specific provisions of Section 406 of the National Housing Act, and it is a limited purpose and limited function and limited powers association, which acts as a non-exclusive management and disposal agent for FSLIC with respect to that action.

So that is essentially what it is.

Mr. **Green**. There were press reports that at one time the White House Economic Policy Council was informed concerned FADA might bloom into something grander than that in terms of functions. Has that matter been resolved? Is it believed there will be this limit?

Mr. **Gray**. I think that the Federal Home Loan Bank Board is very satisfied with the way this organization, its management, its bylaws, and its structure have been put together. I am not the recipient of any communication as to how people in the Administration view it, however, I do not have any signal at all that there is unhappiness with the way it has been structured and will operate.

FADA FINANCIAL OBLIGATIONS

Mr. **Green**. Does FADA have any capacity to obligate the Federal Government to borrow from the Treasury?

Mr. **Gray**. Not to borrow from the Treasury?

Mr. **Green**. Or in any way to dip into the Federal till?

Mr. **Gray**. No, it is capitalized by the FSLIC and has a line of credit to the Federal Home Loan Bank of Topeka because it will be a member of the Federal Home Loan Bank system. Of course, any amount of that line that is exercised would be guaranteed by the FSLIC but I think I can speak on behalf of the Board in saying that the line of credit, the activities of this organization, will be operated very prudently by people whose entire history is that of prudent management. I can assure you that we will be right on top of it every step of the way.

SOLVENCY OF MCP'S

Mr. **Green**. Thank you, Mr. Chairman.

Mr. **Hovde**. Mr. Chairman, may I correct a previous statement that was made? The question was asked, are the 23 MCPs insolvent? They were insolvent. They were declared insolvent, however, we have infused nearly $1.3 billion of ICCs into these institutions since they came into being last April bringing them to at least the zero net worth if not a positive net worth and have reserved against those ICCs some $850 million in FSLIC reserves.

So we would hope to bring them at least to a solvency at this stage of the game. Obviously, there are many variables in that whole picture, but to leave the public statement that they are insolvent would not be correct. I wouldn't want to incite fear and panic in that regard.

Mr. **Gray**. I am glad you pointed that out. They were insolvent when they came in, but shortly after they were not, because of income capital certificates.

Mr. **Boland**. That is the purpose of the program anyway. If it is working that well, does the industry like that program?

Mr. **Gray**. I think the industry is pleased that we have done it. There are some aspects to the management consignment program that frankly are not greeted with wild enthusiasm by everybody. One of the problems is that these institutions, because of their situation, even in management consignment unfortunately tend to pay higher rates than any of us would like to see.

Mr. **Boland**. What would you expect the trend to be for the future in the management consignment program? Will the number of management consignments grow?

Mr. **Gray**. Yes.

Mr. **Hovde**. But in a different form. We now have three different kinds of management consignment programs. One, that originally

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came into being was MCP, which is now MCP-3, which is a pass-through receivership. We now have management consignment program number one where we put in a team of individuals rather than put it under a contract to another institution.

Consignment program number two is where we put in a conservator under contract to someone else in a prior receivership mode. So it will take different directions trying to accomplish an end objective.

INSOLVENCIES BY GEOGRAPHIC REGION

Mr. Boland. What is the story on the insolvency problems with respect to geographic locations? Are your greatest problems California, New York, and Texas?

Mr. Gray. No. They are in California, Texas, and Louisiana.

Mr. Boland. Florida?

Mr. Gray. To a lesser degree, Florida, and they are scattered around other areas. Probably in Illinois, we have a disproportionate number of problems. But clearly California, Texas, and Louisiana.

Mr. Boland. Is there a particular reason for the problems in those geographical areas?

Mr. Gray. You know I might want to turn this over to my friend from Texas.

Mr. Boland. At the rate of which oil is coming down, you are going to have a lot more problems in Texas, aren't you?

Ms. Grigsby. That is right.

Mr. Boland. Texas is going to be awash in red, I think, if this continues.

Ms. Grigsby. Where a lot of the problems have happened there is real estate, bad real estate, oil and agriculture and wherever you have got that you have got problems.

Mr. Boland. Do you have a number of problems in the farm area, too?

Mr. Hovde. Not too many.

Mr. Gray. Well, not like the areas that I have already described, no.

Mr. Boland. Not like the farm credit system?

Mr. Gray. No. We have had our share of problems. The biggest, most extensive management problems are from California.

Ms. Grigsby. There are larger associations in California.

PROBLEMS OF RAPID GROWTH IN ASSETS

Mr. Boland. The problems with the S&Ls developed four years ago around 1980, 1981, or so, when interest rates started to shoot up.

Mr. Gray. That is right.

Mr. Boland. I suppose there must have been a lot of loans by S&Ls that were bad asset quality on the books at that time?

Mr. Gray. I would say that the loans made in the seventies as we came up into the early eighties were, relatively speaking, of good quality and they were primarily mortgages.

Mr. **Boland**. Why do we start to get poor asset quality starting with the eighties then?

Mr. **Gray**. I will tell you. We all probably have our view. Let me just start by saying that with the advent of deposit deregulation, institutions were able to go out and access as much money as they wanted and pay any price for that money from money brokers offering accounts themselves. As money had been, as I think Don has already suggested, a difficult thing for them to get with the disintermediation mode we had in 1981 and 1982 in the money market mutual funds which were unregulated and siphoning off money from commercial banks and savings and loans.

So all of a sudden, here is this open sky for federally insured money. Too many of our institutions went after too much of that high-priced money. Because of a scheme that is now being corrected, the phase-out of our five year averaging which really distorted how net worth is calculated, our institutions were able to leverage tremendously, 666 to one, and more, for money against very low levels of net worth.

Unfortunately, what happened was there was a mentality that they could grow out of their portfolio problems. Just let us grow fast enough, we will grow out of our problems. What happened was flush with money, too many of them threw too much money at bad projects that just haven't worked out for a lot of reasons. One of those reasons was the fact that they were counting on inflation to come back.

Inflation didn't come back. Inflation bailed out bad decisions in the seventies but it didn't in the eighties. So in my own view, the single-worst thing to happen to this industry, as it works out, was the ability to go after unlimited amounts of money on very little net worth, and to throw that money at projects that time and time again went bad.

Mr. **Hovde**. The Chairman has pointed at a major cause on the liability side of the ready access to insured capital that came flooding in. At the same time, they went off on the asset side where he had said inflation had always been around to bail out poor underwriting in times past. I think there was a lot of poor underwriting in times past, except that inflation always covered it up because given three years time of double digit price increases, you didn't have to underwrite carefully. It was a no-brainer because you could come out of it.

When the pendulum swung from double digit inflation which was rampant throughout the last decade, to an inflation rate of three, three-and-a-half, and four percent, now in many markets to a deflation, recognizing that we have the highest vacancy factor in every product line of real estate in the history of keeping statistics today, so there you are. You have got this massive amount of insured capital and an asset side for which inflation no longer exists with rare exceptions in certain geographic markets.

Mr. **Gray**. We have made a great deal of progress. Remember, it was last year at this time when we had out for comment a net worth/growth regulation and we had out for comment a direct investment regulation.

That net worth/growth regulation was adopted early in 1985. I can tell you that compared to the growth in the industry in deposit liabilities in 1984, 1985 was only one-third the growth that we saw in 1984. Those were very controversial regulations.

The Bank Board hunkered down and we adopted them. Thank heavens we did. I think there would be general consensus in the savings and loan industry today that those regulations were indeed needed and are now appreciated. Perhaps some would begrudge the fact that they were needed, but nevertheless, they have worked and they have worked very well.

So we have made a lot of progress in that regard.

Mr. **Boland**. Is there still strong medicine necessary to solve the problems of the thrift institutions?

Mr. **Gray**. Yes, I think so.

Mr. **Boland**. Do you have any proposals?

Mr. **Gray**. We are developing them right now. I think it would be premature because the staff has been working very hard to suggest what they might be, but they haven't been brought to the Board yet. Yes, there are.

WASHINGTON OFFICE OF EXAMINATIONS AND SUPERVISION

Mr. **Boland**. You indicated the authority given for an additional 900 FTEs for field examinators to the district banks has been working very very well. It has been a smooth transition, and I think Mr. Hovde indicated you only lost about 35 people in that move. You indicated what the entry salary is and also what the average salary is. You have indicated you think tangible benefits have been realized as a result of that change. What about the rumored proposal that the Bank Board discussed recently with OMB that additional functions from the Bank Board's administrative realm are to be transferred from the Bank Board? This is specifically the Office of Examination and Supervision. Do you want to talk about that or is that something you would like to address to the Legislative Committee?

Mr. **Gray**. Mr. Chairman, we always want to be responsive to the committees that invite us. It may be premature at this time to do that. I will let that be your call.

Mr. **Boland**. I think the problem we foresee is that the Bank Board itself would have less direct supervision over the district banks. I think that could be a problem. It could be a problem for you, I think. It could be a problem probably for the Bank Board itself in the future.

I think it ought to be looked at carefully before it is done. Whether you can do it on your own, or whether you can do it through the legislative process or through the appropriation process, I don't know. That is a matter I think you should look at.

Mr. **Hovde**. Mr. Chairman, the Chairman has asked me——

Mr. **Boland**. Let me ask, what is OMB's attitude on this, or have they raised any objection to it?

Mr. **Gray**. We have been discussing this with them and I think they have only been in receipt of a letter which the three Board members sent—well, the particular person to whom it was addressed has only had it in the person's possession for two days now. So it is a little too early.

It is probably unfair for the staff at OMB to have made any judgments on it.

ACCOUNTABILITY OF BANK SYSTEM TO THE BOARD

Mr. BOLAND. Let me just say this. The problem I have with it is that the examination and supervision people are in Washington; if they get out from under the Board and go to the district banks you no longer have them under your supervision.

Mr. HOVDE. Let me respond to that, Mr. Chairman. Chairman Gray has asked that I chair this task force. It is called Task Force Two, Task Force One being OES field that we brought about last year and discussed. I chair that in-house task force dealing with this possibility.

We are not prepared to make a recommendation as to the ultimate structure of that today. Certainly, the issue that you raised of ultimate control and authority being vested in Washington under the direct authority of the Bank Board is absolutely one of the top objectives in any structure that we set up.

It is not intended, in fact, this is the task force recommendation, that those bodies go out to 12 district banks. Those bodies will stay here in Washington, further they will be augmented by additional staff, professional staff, as needed, to have the oversight, management oversight.

But as I said, we have not finalized our final recommendation and your words of admonition——

SUPERVISION OF EXAMINERS

Mr. BOLAND. The bodies stay here all right, but actually the authority for the use of those bodies is with the district banks—is that correct?

Mr. HOVDE. No, no.

Mr. GRAY. Mr. Chairman, let me answer this or try to answer this. The same concerns were raised last year when we were looking at the transfer of examiners from Washington to the Federal Home Loan Bank Districts that somehow when they were transferred they would no longer be under our control.

Last year I believe in the testimony I read a provision in the Federal Home Loan Bank Act which makes it very clear that any officer, director, employee, agent, and there may be another word that I am leaving out here, of any Federal Home Loan Bank may be terminated with a letter from the Federal Home Loan Bank Board.

Now, that goes back to 1932. Obviously the Bank Board would not do that without cause but in a certain sense, any member or director or employee of any Federal Home Loan Bank almost serves at the pleasure of the Federal Home Loan Bank Board pursuant to that language.

Now, if that is the case, and I can tell you that in 1984 the Federal Home Loan Bank Board in joint action asked a man who was the president of one of our banks to give up his position as principal supervisory agent. Within a few weeks that particular individual left the bank system.

This has always been the case and what I am trying to say here is that in the Federal Home Loan Bank system, the Bank Board is ultimately responsible. We come before Members of Congress. We have to answer for anyone in the bank system operating under delegated authority, even for what they have done in connection with their conduct of their job.

So in terms of the Bank Board's responsibility we are responsible for all of that to the Congress and the President.

Mr. **Boland**. Let me ask you whether or not under this proposal the Examination and Supervisory Office would still be a part of the Bank Board?

Mr. **Gray**. It would be under the Bank Board, a part of the bank system, but directly under the Bank Board.

Mr. **Boland**. Directly under the Bank Board, so there is accountability on the part of the bank's supervisory office to the Bank Board; is that correct?

Mr. **Hovde**. Correct.

Mr. **Gray**. Mr. Chairman, can I just tell you again your efforts last year are a God-send to us and the industry and we thank you very, very much.

Mr. **Boland**. That isn't what they told me at the S&L in Springfield when I went to get a loan.

TREASURY ASSISTANCE

Mr. **Green**. Let me ask one bottom line question that concerns us in terms of our representations to the Budget Committee, especially the 302-B budget process. Is there any possibility that at any time in this fiscal year or in the next fiscal year you will be turning to the Treasury for Federal funds for a solution to any of these problems?

Mr. **Gray**. I think I can speak on behalf of the Board in saying we cannot envision a circumstance where that would be the case.

Mr. **Green**. That is good news.

Mr. **Gray**. Let me say, incidentally, I will wait just a minute.

ADMINISTRATIVE EXPENSE

Mr. **Coughlin**. Your administrative expenses, are they funds appropriated from the Treasury or are they funds from the banks you supervise?

Mr. **Gray**. Every cent, every single penny associated with the regulation, supervision, is income from the savings and loan business and those we regulate.

Mr. **Coughlin**. None of it is Treasury funds. So the effect of Gramm-Rudman on you is a curious effect because it is only because we approve the expenditure of funds received from your members that Gramm-Rudman affects you; is that correct?

Mr. **Gray**. That is right. It was an excellent question.

Ms. **Grigsby**. Thank you.

Mr. **Hovde**. Do you wish to state that question one more time?

Mr. **Sabo** [presiding]. Except you retain the money saved?

Mr. **Gray**. Mr. Chairman, I wanted to, if I may, just enter for the record something which I brought along with me and I think you will find interesting for the record. Some of the significant supervisory directives, since we have been talking about supervision and examination, which have been issued by the Federal Home Loan Bank Board going back to 1984. This, I believe, is a corollary to the whole effort that we have made with respect to beefing up supervision and examination staff.

[The information follows:]

SIGNIFICANT SUPERVISORY DIRECTIVES ISSUED BY FEDERAL HOME LOAN BANK BOARD CHAIRMAN GRAY AND SENIOR STAFF

INDEX TO
SUPERVISORY DIRECTIVES

Description	Exhibit No.
April 12, 1984 memorandum from Bank Board Members stressing need for immediate supervisory actions in response to all final or interim examination reports that reveal substantial problems	Exhibit A
August 9, 1985 memorandum from Chairman Gray directing, *inter alia*, that supervisory correspondence must be firm and precise and that there should be no hesitancy to recommend formal enforcement actions where violations or unsound practices cannot be resolved expeditiously through informal supervisory efforts	Exhibit B
August 23, 1985 memorandum (as amended September 4, 1985 and November 15, 1985) from Chairman Gray directing vigorous use of all formal enforcement tools, and establishing new reporting procedures for all material violations of laws, regulations and agreements	Exhibit C
December 2, 1985 memorandum from Chairman Gray emphasizing the high priority of the August 23rd memorandum	Exhibit D
October 11, 1985 memorandum from Chairman Gray with respect to institutions failing regulatory net worth requirements, attaching October 11, 1985 memorandum from the Office of Examinations and Supervision ("OES") about same subject	Exhibit E
October 11, 1985 memorandum from Acting Director of OES directing immediate supervisory or enforcement action to resolve violations of the growth regulation . .	Exhibit F

October 11, 1985 memorandum from Acting Director of OES alerting supervisory staffs to institutions that have reported high level of high-risk lending	Exhibit G
February 12, 1986 memorandum from Chairman Gray directing the immediate reporting of significant problems detected during examinations via interim exam reports. Memorandum attaches corresponding memorandum of same date about interim reports from Acting Director of OES and newly revised section of examiners' manual about interim reports. Chairman Gray's February 12th memorandum also directs expeditious reporting of all violations of net worth maintenance agreements, personal guarantees or FSLIC assistance agreements by controlling parties of insured institutions . .	Exhibit H

EFFECTS OF BUDGET REDUCTIONS

Mr. **Sabo**. If we can move onto the justifications, the first page shows the effects of Gramm-Rudman reductions, which raise some questions.

Are these organizational changes just being proposed as a protection against Gramm-Rudman?

Mr. **Gray**. No. Well, first of all are we talking about the same subject that Mr. Hovde previously was commenting on?

Mr. **Sabo**. I am not sure what he most recently commented on.

Ms. **Grigsby**. Yes.

Mr. **Gray**. We are? Actually, I am not sure how I would characterize it. I am not sure it has been proposed yet. Let's say it is being considered. So following on, if it is being considered, what is your question again, sir?

Mr. **Sabo**. If these changes are being proposed simply as a future protection against Gramm-Rudman cuts. Let me ask you another question on whether there is a chance next year you will be suggesting transferring something else out of your central office.

Mr. **Quillian**. Mr. Chairman, I am a little bit of a late-comer to this. I was not directly involved in the OES Phase II last year, but I was on the fringe of it. It is my understanding at the time that the transfer of the field examination function out to the district banks was proposed and was analyzed, and was indeed implemented, that OES Phase II, which related to the headquarters function, was under consideration and that was before Gramm-Rudman was even in the picture.

Mr. **Gray**. Since last May.

Mr. **Quillian**. It is important to realize that it was contemplated even at that time that it might be beneficial to the Board and the banks for this Phase II to occur and to have the headquarters function or part of it at least to be moved out in this way and that is indeed the present thinking at the staff level.

That is, the intention is to complete and perfect the transfer of the examination function of the bank.

REPROGRAMMING OF FUNDS

Mr. **Sabo**. The justification mentions a reprogramming to reflect allocation of the Gramm-Rudman reduction of $1,156,000. When will that be submitted?

Mr. **Pittman**. We are looking at that now and we feel that the areas where the reduction would have to be applied is pretty well in line with what we showed on the opening page of the justifications in order to achieve that 4.3 percent reduction. I would expect that we would have any implementation plans finalized within the next month or so.

Mr. **Sabo**. When will the request be coming?

Mr. **Pittman**. The request for the supplemental?

Mr. **Sabo**. Or for the reprogramming?

Mr. **Pittman**. We have had to already apportion downward the amounts with OMB. But just at the bottom line. I would expect that we would have available for the subcommittee within a month the specific areas by expense category where these reductions would have to be applied.

SUPPLEMENTAL BUDGET REQUEST

Mr. **Sabo**. This page also shows a 1986 supplemental of $3,429,000 for 95 additional FTE. Isn't this at odds with the proposal to transfer the Examinations and Supervision Office? To what offices will these FTEs be allocated? What is its urgency?

Mr. **Pittman**. If I may, Mr. Chairman, approximately two-thirds of that would be an overlap of the same office that may be proposed to be put under the bank system. Two million of that $3.4 million would be associated with that office.

Mr. **Hovde**. The additional staffing levels are needed whatever the new alignment of that OES headquarters is, and the purpose of discussing the transference of it, picking up on our Acting General Counsel, Harry Quillian, is to further augment and strengthen the overall efficiency of the entire examination, supervision, monitoring, coordination process.

But the staffing levels are needed one way or the other.

NEIGHBORHOOD REINVESTMENT FUNDING

Mr. **Sabo**. Page A-2 mentions the Neighborhood Reinvestment Corporation. Is the Bank Board still providing funds to NRC and if so, how much?

Mr. **Pittman**. The bank system is still providing some funds to NRC, but not the "on budget" agency.

Mr. **Sabo**. How much are the "off budget" agencies providing?

Mr. **Hovde**. We provide $200,000. The Federal Reserve provides $200,000, but we have told them after this fiscal year it was at $400,000, and there were at least a half-dozen agencies within the Federal Financial Institutions Examination Council that were contributing. It ended up with just the Federal Reserve Board and ourselves contributing $400,000 a year. A year ago we told them it would be reduced to $200,000. At the end of this fiscal year we will be out of any kind of agency contribution to the NRC.

FY 1986 BUDGET AMENDMENTS

Mr. **Sabo**. Turn to page C-4 in your justifications. I must point out the misunderstanding or error that occurs throughout the justifications in the column headed "1986 Budget Estimate." This column is intended to show the President's original request which Congress considered.

That amount was $25,213,000, not the $26,877,000 shown. Is that accurate?

Mr. **Pittman**. Yes, sir.

Mr. **Sabo**. Even if we considered the FY 86 supplemental, the total is still under $26 million, not $26,877,000.

Mr. **Pittman**. The total difference of $1.6 million was a collection of three different budget amendments that were processed after our budget justifications were submitted this time last year and prior to enactment of the fiscal 1986 HUD bill, so this column showing the larger figure was an attempt to reflect all of those amended changes.

TRAVEL EXPENSES

Mr. **Sabo**. If you turn to page C-11 again, we want to make sure there is no confusion of the numbers. The justification shows that $835,000 is the 1986 budget request for travel. Again, that was not the amount requested. The actual request was $585,000 last year. What caused the 50 percent increase?

At the same time please explain why it jumps to $956,000 in 1986.

Mr. **Pittman**. Most of that increase was also due to one of the amendments that I referred to a moment ago. Specifically, when the non-administrative expense limitation was eliminated from our budget last year when we moved our field examination work force out of the agency, there was a line item set aside of $500,000 for the training of State examiners. One-half of that $500,000 has always been specifically for travel which is incident to that training for those State examiners.

So this is the increase.

Mr. **Sabo**. Next year would you please show the original President's request that is the starting point?

Mr. **Pittman**. We will.

Mr. **Sabo**. Why the big increase again this year to $956,000? This is up from what was originally $585,000, plus a budget amendment to equal $835,000 and now you have $956,000 in 1986. Haven't airline tickets gone down?

Mr. **Pittman**. Beyond the $250,000 increase which is there for the travel incident to training State examiners, we also have an allowance for additional travel relating to the 95 additional positions.

STAFF EXPENSES

Mr. **Sabo**. The committee would expect a reprogramming request for these additional funds and would expect the Board to submit one as soon as possible.

Back on C-5, a related problem exists in the funding for Mr. Hovde's office. Last year's estimate for 1985 was $191,000. The actual amount shown in this year's budget is $288,583; this represents an increase of over 50 percent.

Would you submit for the record an explanation of the difference.

[The information follows:]

Office Expenses

The $288,583 listed in this year's budget justification book is incorrect due to an addition error; the correct amount is $228,583, which represents straight salary, overtime, awards and annual leave, all of which are components of compensation per budgetary accounting. The $60,000 difference resulted from an imprecise method of presenting the annual leave liability component of compensation expense as an average across individual offices. This means in this case that a major portion of the reported $60,000 in annual leave liability is attributable to other offices. The total FY 1985 compensation for all Board offices, however, was $16,927,124 as reported.

In addition, for approximately eight months during FY 1985, the Board employed a public policy assistant whose responsibilities included keeping all three Board members apprised of significant developments and trends in the thrift industry regulated by the Board. While providing assistance to the entire Board, the assistant reported directly to Board Member Hovde for administrative purposes, and his eight months of compensation totaling $40,183 were included in the overall expenses of Mr. Hovde's office.

Mr. **Sabo**. On page C-8 the General Counsel's Office grows from 89 FTE to 102 to 131. These increases are even larger, since 14 FTE were moved out of the General Counsel's Office to create the new Office of Enforcement. Why is there such a large increase?

Mr. **Pittman**. These increases are in three areas and then I will turn it over to our general counsel.

FSLIC supported legal counsel, litigation and, as you mentioned, enforcement has been moved over to another separate office now.

Mr. **Quillian**. Just a word on the function, Mr. Chairman. As a great deal of the legal work which is done in connection with the various FSLIC support activities and with the various remedial activities in connection with sick or dying institutions is actually contracted out and my office, a good many of my lawyers, spent time supervising legal activities by private lawyers we have had to hire under contract. We are trying to bring more of that work in-house and we would expect to do so.

Mr. **Hovde**. Mr. Chairman, I was concerned also on my office budget because I really have two people plus myself which would be a total of three, not four in this fiscal year that we are currently in and I don't contemplate more than four people.

Last year the amount was $208,000. We had an additional person that was shared between board member Grigsby and myself that left last spring, last May. I wouldn't anticipate—I see on the budget they have $221,000.

I don't anticipate any—I don't know where that figure comes from or that increase. It is 208. It looks like 288. It is 208. So that is the background on that.

NEW ENFORCEMENT OFFICE

Mr. **Sabo**. Why do you need Enforcement as a separate office?

Mr. **Gray**. Well, I think the role of Enforcement, particularly today when it is such an important adjunct to supervision and examination in the field, and with the problems we are finding out in the field at many institutions, as you would expect, indicate the need for—and I believe this is strongly reflected in the savings and loan industry, certainly higher visibility of the role of enforcement.

Secondly, I believe that by having the Office of Enforcement report directly to the Board, only this last week the Bank Board met with the Office of Enforcement for about an hour to discuss what we expect of them and to get to know them better basically because they play such an important role in connection with requests that come up for investigations, for cease and desist orders and so on and so forth. We are increasing the size of their staff and I know that there will be a continuing need for a greater sized office in the Office of Enforcement. Perhaps particularly because the Director of the Office of Enforcement is here, Rosemary Stewart, you can expand on this. I think what we have done to have this office report not as a division of the Office of General Counsel up to the Board, but directly to the Board, emphasizes the importance to the industry and to all of those who legitimately look through oversight at what we are doing, the important role of enforcement more than ever.

Ms. **Stewart.** I would certainly agree and add that to be effective, formal enforcement actions must be done very quickly. If they are not, the institution fails and it is too late for a cease and desist order or removal of management. By being separate just in the short amount of time that we have had, we have added staff, we have been able to be more responsive to the requests that have come in from the field and we have speeded up considerably the process of getting matters to the Bank Board for resolution.

Mr. **Sabo.** I am curious why that office stays at 14 and next year's budget stays the same as this year while we are having a significant increase in the General Counsel's Office.

Ms. **Stewart.** It is not. We have similarly grown substantially.

Mr. **Sabo.** Isn't your request for 14 in 1987 the same as you had in 1986?

Mr. **Pittman.** There are some increases going to that office from FSLIC. They are non-administrative positions that are not a part of this budget limitation.

Mr. **Sabo.** How much? Would you submit that for the record?

Mr. **Pittman.** I will.

Mr. **Gray.** Yes, we will. Incidentally, enforcement is directly related to that same function, examination and supervision of protecting, serving as a front line of defense for the FSLIC.

[The information follows:]

Enforcement Office Positions

In addition to the Board-funded positions, there are 13 FSLIC-funded positions authorized for this office.

FIELD EXAMINATION TRANSITION EXPENSES

Mr. **Sabo.** Page C-12 mentions several one-time costs related to the transfer of the examination function last year. What is the total of those costs? What recurring cost increases are related to the transfer?

Mr. **Pittman.** There are no recurring costs relating to that transfer. To date, we have very, very little, approximately $18,000 that were hold over expenses related to this transfer.

EQUAL EMPLOYMENT OPPORTUNITY

Mr. **Sabo.** On page C-42, the justification last year projected that 105 solicitations would be sent to historically black colleges and universities. Only eight were actually sent in 1985. Why were outputs so much lower than projected?

Ms. **Fairbanks.** I can't explain that figure. Dennis, where did you get that?

Mr. **Pittman.** I think we would have to provide that for the record.

Ms. **Fairbanks.** We will provide that for the record, Mr. Chairman.

[The information follows:]

There are 105 Historical Black Colleges and Universities in the United States. The eight in 1985 represent on-site recruitment visits, while the 105 in 1986 and

1987 would have been written communications, as a minimum, to publicize program activities to include employment, economic, research grants, industry forecasting, grant contracts, visiting professor programs and other fellowship efforts.

Actual solicitation sent to black colleges in FY 85 were lower due to two factors:

1. The decision during FY 85 to transfer the field examination function to the Federal Home Loan Banks, and the necessity to increase staff in the Federal Savings and Loan Insurance Corportion (FSLIC), completely changed the recruiting focus planned for historically black colleges. Specifically, the focus was on undergraduates with limited experience to serve as savings and loan examiners in field offices nationally. FSLIC requirements were for graduates with greater experience to work in Washington, D.C. in a variety of job categories. Planned recruitment schedules had to be cancelled if not changed, and in fact, a completely new recruitment package had to be designed and prepared to highlight the positions in FSLIC.

2. Recruitment at colleges and universities is on a predetermined time schedule established by the institutions. Most institutions establish a 30- to 60-day period a year for interested organizations to recruit graduating seniors. A 10- to 12-month lead time is necessary for obtaining recruitment authority from the institutions. The recruitment schedules cancelled for FY 85 had to be deferred into the FY 86 workload as indicated in the *Justification For 1987 Estimates*. During FY 85, recruitment took place at historically black colleges where recruitment schedules could be changed instead of cancelled, but resulted in FY 85 solicitations being lower than projected.

CLOSING REMARKS

Mr. SABO. Thank you all for coming, and we will follow your success in bringing the troubled thrifts back to profitability and legislative changes to protect the FSLIC from future losses.

I trust that we will have further discussions before any further transfers of functions are made for the Bank Board.

Mr. GRAY. Yes, indeed.

Mr. SABO. Finally, we will be waiting for your reprogramming request which should start with last year's 1986 request as the base and track through the subsequent changes: the enacted amounts, Gramm-Rudman reductions, and any supplementals.

Mr. GRAY. Mr. Chairman, I suspect that there may be a feeling we have not perhaps been quite as responsive as we might be to some of the questions related to this transfer proposal. The reason is, frankly, we are not quite ready to do it. It just works out that we are not quite ready to do it, but you can be assured that before the Bank Board takes any action beyond what we have discussed today relative to our budget and our administrative scheme, we will discuss this in full with you.

Mr. QUILLIAN. Mr. Chairman, I have been waiting for an opportunity because I missed an opportunity earlier, to allay any concern on behalf of the members that transferring out of functions to the banks in any way deprives the Bank Board of authority. That is simply not the case. As a legal matter, the Bank Board has plenary authority under the Federal Home Loan Bank Act to regulate and supervise and to adopt regulations and require their compliance with the regulations by the banks and by bank system employees. So there isn't any question that the Bank Board will retain plenary authority and power over any of those functions.

Mr. GREEN. I guess our concern is that the eyes and ears through which you see and hear, the arms through which you do it, are in fact gone. While you may have the authority you really won't have the capacity to exercise it.

Mr. GRAY. But I would respond by saying this. I respond respectfully. We would not establish any mechanism where the members of the Federal Home Loan Bank Board would surrender even indirectly the authority and particularly the responsibility we must have because ultimately we are responsible to members of Congress and the President and the public for activities and no mechanism would in any way violate that idea.

That is the thing I want to emphasize. You see we have not explained what we are even considering here, but I believe if we did at the appropriate time we could remove any concerns you might have.

Mr. **Green**. I realize that.

Mr. **Hovde**. The responsibility and accountability will not have changed one iota.

Ms. **Grigsby**. We are still part of the Federal Home Loan Bank System.

Mr. **Sabo**. Mrs. Boggs had some questions for the record and Mr. Lewis also had some questions concerning a California S&L, but he was called to the White House.

Thank you very much.

[The following questions and answers were provided for the record:]

Questions Submitted for the Record by Congressman Jerry Lewis

Question. Mr. Gray, are you familiar with the history and recent events involving the American Diversified Savings Bank in Costa Mesa, California?

Answer. Yes. The Bank Board appointed the FSLIC as Conservator for American Diversified on February 14.

Question. Under existing conditions of stress on the Federal Savings and Loan Insurance Corporation (FSLIC) funds in general in these times, isn't this Conservatorship likely to result in a further drain on the insurance fund?

Answer. The Board, in appointing the Conservator, recognized an existing insolvent and unsafe and unsound condition of American Diversified. The Conservatorship did not create that condition, which is indeed likely to prove to be a burden upon the insurance reserves.

Question. Do you have any estimate as to what that amount might be?

Answer. The losses determined by the Bank Board at the time of the appointment indicated a negative net worth of at least $30 million. The true negative net worth is possibly much greater.

Question. Would it not be in the interests of the Bank Board not to close the savings bank if, for example, a reputable private investor would be ready to bring in an infusion of funds, say at 20 million or more and new management as well?

Answer. A new qualified and suitable investor that would make American Diversified solvent without FSLIC assistance and give it sound operating direction would be welcome.

Question. Suppose there were a reputable buyer/investor for American Diversified who would infuse 20 million or so in cash within a week of this date or so, but who wouldn't be at all interested after the bank had been closed down, contracts had been voided and key employees had been terminated.

Answer. American Diversified has not been closed, even for a minute, but has kept normal business hours. The Conservator has not "voided" business contracts. We have discharged and filed suit against some persons who are responsible for the present condition of American Diversified.

Question. Would it not then be in the best interests of the FSLIC to keep the operation going so that you could work this through with the private buyer and save Federal funds?

Answer. The Conservator is operating American Diversified as a going concern and will certainly encourage any reputable qualified investor or acquirer who would save money for the FSLIC.

Question. And do it expeditiously before a reputable buyer would lose interest?

Answer. The staff will process any offer of a reputable qualified acquirer with expedition.

Question. Mr. Gray, were you aware before the Board took control of the S&L that there was a cash buyer for the institution who could have brought it up to an acceptable net worth?

Answer. The staff received conflicting signals from a potential buyer prior to the appointment of the Conservator, first indicating lack of interest and then indicating interest in an acquisition. That person has since told the staff that he will not make an offer until he concludes a due diligence inquiry into the condition of American Diversified.

Question. If an offer was made that would infuse this cash, change management and control and comply with the Bank Board policies over a period of time, wouldn't it make sense to go in the buyout direction rather than further into the detailed elements of conservatorship that are unattractive to the investor?

Answer. We will consider facilitating any reasonable offer. There does not appear to be an outstanding offer at the present time, but we are willing to cooperate and encourage any qualified potential acquirers.

Questions Submitted for the Record by Congresswoman Lindy Boggs

Question. I was pleased to note in reviewing your budget justification that membership in the Federal Home Loan Bank Board system has increased, that assets of member institutions have continued to increase and that mortgage lending has also increased. This would imply increasing strength in at least a major portion of the S&L industry.

Do you think that our federally insured S&Ls will be able to survive and prosper with the current degree of deregulation and expanded powers?

Answer. The savings and loan industry has emerged quite favorably in the current climate of deregulation and expanded powers despite having to deal with the problems of a minority of institutions. Net profits for the first nine months of 1985, on an annualized basis, averaged $3.7 billion. The entire industry earned $1.1 billion in the third quarter alone, even with the depressing effect on earnings of the $380 million in losses taken by the small segment of the industry that is insolvent based on regulatory accounting principles. This means that the solvent institutions in the industry earned $1.43 billion in the third quarter, evidencing the extraordinary earning potential of the thrift industry once the FSLIC resolves the current problem institutions.

Further, the net worth for the industry as a whole is also encouraging. The ratio of net worth to liabilities has increased from 4.2 percent at the end of 1983 to 4.4 percent at the end of November 1985. A significant segment of the industry is earning and retaining record profits.

The Garn-St Germain Depository Institutions Act of 1982 provided expanded powers for savings and loans and mutual savings banks, but also made it clear that its Congressional intent was to "revitalize the housing industry by strengthening the stability of home mortgage lending institutions and ensuring the availability of home mortgage loans." The legislation was not intended in any way to convert savings institutions into the functional equivalents of commercial banks, nor was it intended to take away their principal function as home mortgage lending institutions. It was intended to strengthen their stability in order to ensure the continued availability of home mortgage loans.

With these new and expanded powers thrift institutions were given the tools to restructure their asset/liability portfolios, as savings institutions had been holding low yielding, underwater, long-term fixed-rate mortgages during a period of high interest rates. Now that interest rates have declined, thrifts are now better able to serve in their mission of providing home financing by having been given the tools to insulate themselves against cyclical changes.

Question. What about if we go further with deregulation and banks acquire significant new powers? (such as securities, investments, insurance and real estate). Will thrifts be able to hold their own?

Answer. If Congress further deregulates the banking industry, thrifts will still continue to be predominately involved in housing, devoting the majority of their funds to originating mortgage and residential construction loans and securitizing mortgage instruments as well as purchasing mortgage-backed securities. In 1985, savings institutions held nearly $700 billion in mortgage or mortgage-related securities or approximately 54 percent of home mortgage debt outstanding. Commercial banks accounted for only about 15 percent of home mortgage debt outstanding.

To the extent that non-traditional thrift investments provide effective portfolio diversification benefits and induce lower overall portfolio risk, these investments complement the role of deposit insurance in fostering housing finance. But non-traditional lending such as insurance, securities, investments, other than for diversification benefits conveys a competitive advantage (compared to other private investors in the market place) to depository institutions that have access to insured deposits at flat rate premia. When entrepreneurial activities of private investors fail, these investors must sustain such losses themselves. When non-traditional direct investments engaged in by entrepreneurial thrifts fail—since such investments are made by insured institutions or their own subsidiaries on the implicit full faith and credit of the United States—it is the thrift deposit insurance system which must absorb the losses.

If thrift institutions continue to undertake their unique role of providing expertise in housing finance, then in spite of any further deregulation, thrifts should still be able to hold their own. However, this assumes that if there are any significant new powers given to banks, thrifts must not be put in a position of competitive disadvantage.

Question. Since there seems to be reasonable doubt as to the administration's support for thrifts and the Federal Home Loan Bank Board system, I would appreciate your comments as to why the consumer is better off having a viable thrift industry in the U.S.

Answer. Homeownership has been an important goal for most Americans. This goal has, historically, been fostered and supported by a robust thrift industry that has lent most of the funds for home mortgages and provided for the safety of individual savings accounts. The thrift industry resulted from the presence of a well-functioning central reserve credit system—the Federal Home Loan Bank System—established by Congress in 1932 and has played a unique role in creating a nation of homeowners.

Six out of every ten families in America today live in their own home. In the last four decades, the number of owner-occupied homes has more than tripled. Mortgage lending by savings institutions has increased from less than $2 billion in 1945 to $117 billion in 1985. This was 55 percent of the total mortgage loan originations made on one-to-four family homes during the year.

At the end of 1985, savings institutions held an estimated $547 billion in residential mortgage loans, $115 billion in mortgage backed-securities and about $5 billion in collateralized mortgage obligations. These total nearly $700 billion in mortgages and mortgage-related securities. Since 1945, savings institutions have consistently financed about half of each year's residential mortgage obligations—or 54 percent last year.

The Federal Home Loan Bank Board estimates that around 20 million homes are being financed by savings institutions today. If one were to assume one family per home and four persons per family, such a calculation would encompass 80 million people.

In addition, the Bank Board estimates that in 1985 the thrift industry will have made $20 billion in home construction loans—or half the market.

These statistics indicate remarkable accomplishments by the thrift industry. They show that the savings institutions have continued their longstanding commitment to housing finance and homeownership. With a stable and viable thrift industry the consumer will be the ultimate beneficiary.

Question. What can be done to speed up the processing during acquisitions and mergers so that difficulties for depositors and those holding loans can be reduced? Clearly the delays often encountered have unfortunate ripple effects on innocent depositors, consumers and business persons.

I am well aware of one instance involving my constituent, Pierre Villere Companies of New Orleans. This company is involved in Woodside Terrace Partnership—which holds two construction loans through an Oregon S&L (State Federal) that failed in December and has been reopened as Freedom Federal S&L. Delays in permitting draws on the loan necessitated shutdown of construction on the project. Although a draw has now been permitted, other draw requests remain outstanding and the delays have had a costly impact on my constituent. The actual status of the loan is still unresolved.

What can be done to minimize this kind of adverse impact on businesses and consumers?

Answer. The concerns you expressed in the above question arise when an institution, such as State Federal of Corvallis, Oregon, is placed into a liquidating receivership, and is not merged into or acquired by another institution, which results in an uninterrupted flow of lending and servicing activity. The Federal Home Loan Bank Board (FHLBB) declares an institution insolvent and appoints the FSLIC as receiver when, after careful analysis by examiners and FHLBB staff, other methods of re-

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solving a troubled institution's situation, such as a merger, are determined to be either too costly, infeasible, or otherwise undesirable. This process, by its very nature, results in placement of the most complicated and distressed cases into receivership status. The FSLIC as receiver, therefore, is, without exception, confronted with many complex and difficult issues which must be addressed at the time it takes-over a failed institution.

Several actions commence immediately after a take-over. The FSLIC, as insurer of accounts up to $100,000, begins the process of paying depositors for their insured amounts. In such cases, the majority of depositors have access to their insured funds the following business day. Simultaneously, the FSLIC, as administrator of the receivership estate, begins to carry out its fiduciary responsibilities to creditors of the failed association. Such responsibilities include liquidating assets for maximum value, administering the claims process and paying creditors in a timely manner. This latter function is analogous, but not identical, to a bankruptcy court's administration of a corporate liquidation.

The fact that State is in a liquidating receivership means that all general creditors and persons involved in executory contracts with State are exposed to loss, as is the FSLIC. Receivership procedures are designed to minimize losses and apportion them fairly, but a failed institution necessarily causes loss.

FEDERAL HOME LOAN BANK BOARD
Justification of Estimates for Fiscal Year 1987

TABLE OF CONTENTS

SECTION A — Page

HISTORICAL SUMMARY .... A- 1

SECTION B

PROGRAM HIGHLIGHTS - EXPENSE SUMMARY

Program Highlights .... B- 1

Federal Home Loan Bank System .... B- 1

Federal Savings and Loan Associations .... B- 5

Federal Savings and Loan Insurance Corporation .... B- 5

Summary of Agency Expenses .... B- 6

Comparison of Average Grades and Salaries .... B- 7

Consolidated Schedule of Permanent Positions .... B- 8

SECTION C

BOARD AND STAFF OFFICES

Summary of Board and Staff Offices Expenses .... C- 4

Personnel Compensation and Positions by Organizational Units .... C- 8

Personnel Benefits .... C- 9

Other Expenses C-11

Authorization Language C-18

Program and Activities:
- Supervision of Federal Home Loan Banks C-19
- Evaluation and Processing of Industry Applications C-25
- Executive Direction and Staff Services C-31
- Administrative Services C-68

Functions and Responsibilities of Organizational Units:
- Offices of the Chairman and Board Members C-31
- Administration Office C-68
  - Administrative Services Division C-73
  - Budget Division C-80
  - Controller's Division C-71
  - Information Systems Division C-69
  - Management Analysis Staff C-78
- Communications Office C-33
- Congressional Relations Office C-35
- Office of Enforcement C-36
- Minority Affairs Office C-38
- Personnel Management Office C-45
- Secretariat C-47
- Office of Community Investment C-52
- Office of the Inspector General C-43

FEDERAL HOME LOAN BANK BOARD

TABLE OF CONTENTS

SECTION C (Cont.) Page

Office of District Banks.. C-19
Office of Policy and Economic Research........................... C-66
Office of Examinations and Supervision - Washington Office....... C-64
Office of General Counsel....................................... C-56

SECTION D

FHLBB HOME LOAN BANK BOARD HEADQUARTERS BUILDING.................. D-1

SECTION E

OFFICE OF EXAMINATIONS AND SUPERVISION

Program Highlights.. E- 1

Non-Administrative Expenses..................................... E- 2

SECTION F

FEDERAL SAVINGS AND LOAN INSURANCE CORPORATION

Program Highlights.. F- 5

Creation and Growth... F- 5

Depositors.. F- 6

Reserves.. F- 7

Insurance Liability... F-10

FSLIC Cases... F-10

Office of Federal Savings and Loan Insurance Corporation.......... F-11
  Functions and Activities...................................... F-11
  Projected Activity.. F-15

Budget Summary.. F-16

Personnel Compensation.. F-18

Personnel Benefits.. F-18

Other Expenses.. F-19

Authorization Language.. F-21

FEDERAL HOME LOAN BANK BOARD

TABLE OF CONTENTS

SECTION G

FEDERAL HOME LOAN MORTGAGE CORPORATION............................ G-1

FINANCIAL STATEMENTS

Statement of Sources and Application of Funds:

Federal Home Loan Bank Board.................................... C- 1
Federal Savings and Loan Insurance Corporation.................. F- 2

Statement of Income and Expenses:

Federal Home Loan Bank Board.................................... C- 2
Federal Home Loan Banks... C-23,24
Federal Savings and Loan Insurance Corporation.................. F- 3
Federal Home Loan Mortgage Corporation.......................... G- 4

Statement of Financial Condition:

Federal Home Loan Bank Board.................................... C- 3
Federal Home Loan Banks... C-22
Federal Savings and Loan Insurance Corporation.................. F- 4
Federal Home Loan Mortgage Corporation.......................... G- 3

* *

TABLES

Comparative Summary of Administrative Expenses:

Board and Staff Offices... C- 6
Federal Savings and Loan Insurance Corporation.................. F-17

Comparative Summary of Nonadministrative Expenses:

Federal Home Loan Bank Board - Building Expense................. D- 2
Office of Examinations and Supervision.......................... E- 2

CHART

Organizational and Function Chart of the Operations of the Federal Savings and Loan Insurance Corporation.................. F- 1

IMPORTANT NOTE

Pursuant to the Balanced Budget and Emergency Deficit Control Act, P.L. 99-177, 4.3% of the Federal Home Loan Bank Board's administrative expense limitations enacted in the FY 1986 HUD - Independent Agencies Appropriation Act, P.L. 99-160, are being sequestered.

The table below shows the result of this 4.3% reduction and therefore constitutes an adjustment to the FY 1986 Current Estimates contained elsewhere herein and which were developed prior to the final sequestering determination.

At the outset, the reduction has been applied uniformly across all object class expense categories subject to further consideration and approval by the Committees on Appropriations of any subsequent request by this agency for reprogramming:

FHLBB ADMINISTRATIVE EXPENSES

Expense Category	FY 86 Estimate	Amount Sequestered	FY 86 Revised Estimate
Personnel Compensation	$16,713,000	$ 720,000	$15,993,000
Personnel Benefits	1,991,000	86,000	1,905,000
Travel	1,035,000	44,000	991,000
Transportation of Things	80,000	3,000	77,000
Rent, Comms., & Utilities	1,930,000	83,000	1,847,000
Printing & Reproduction	470,000	20,000	450,000
Other Services	2,894,000	125,000	2,769,000
Supplies & Materials	592,000	25,000	567,000
Equipment	1,172,000	50,000	1,122,000
SUBTOTAL	$26,877,000	$ 1,156,000	$25,721,000
Plus: Proposed Supplemental for Costs of Additional Staff	+ 3,429,000	-0-	+ 3,429,000
TOTAL	$30,306,000	$ 1,156,000	$29,150,000

FSLIC ADMINISTRATIVE EXPENSES

Expense Category	FY 86 Estimate	Amount Sequestered	FY 86 Revised Estimate
Personnel Compensation	$ 921,000	$ 39,600	$ 881,400
Personnel Benefits	95,000	4,100	90,900
Travel	40,000	1,700	38,300
Transportation of Things	5,000	200	4,800
Rent, Comms., & Utilities	299,000	12,900	286,100
Printing & Reproduction	2,000	100	1,900
Other Services	67,000	2,900	64,100
Supplies & Materials	9,000	400	8,600
Equipment	2,000	100	1,900
TOTAL	$ 1,440,000	$ 62,000	$ 1,378,000

HISTORICAL SUMMARY OF THE
FEDERAL HOME LOAN BANK BOARD AND ITS CONSTITUENT AGENCIES

The Federal Home Loan Bank Board was established by the Federal Home Loan Bank Act, approved July 22, 1932, to provide a permanent credit reservoir for thrift and home-financing institutions through the creation of regional Federal Home Loan Banks. The United States Government provided the original capital of the banks by investing a total of $124,741,000. This investment was retired by the banks, over the years, at a rate in excess of statutory requirements. As of July 2, 1951, the Government's investment had been fully repaid. Since that time the capital stock of the 12 banks is owned by the member institutions.

The Home Owner's Loan Act, approved June 12, 1933, gave authority to the Board to charter and supervise local mutual institutions to be known as Federal savings and loan associations. The Financial Institutions Regulatory and Interest Rate Control Act of 1978, (P.L. 95-630, approved November 8, 1978), gave authority to the Board to charter and supervise Federal mutual savings banks. These associations and banks serve as a means of encouraging local thrift and home financing.

From the date of its creation in 1932 until April 25, 1939, the Federal Home Loan Bank Board functioned as an independent establishment reporting directly to the Congress and the President. On April 25, 1939, by Congressional approval of the President's Reorganization Plan No. 1, the Board and the organizational units under its jurisdiction were grouped under the Federal Loan Agency along with other related Government corporations and organizations.

The Board continued under the Federal Loan Agency until February 24, 1942, when by Executive Order No. 9070 the five-man Board was vacated and its Chairman was made Commissioner of the "Federal Home Loan Bank Administration", the units formerly under the Board being retained. The Executive Order placed the Board under the National Housing Agency, together with the Federal Housing Administration and the Federal Public Housing Authority.

Under Reorganization Plan No. 3 of 1947, effective July 27, 1947, a bipartisan Board of three members was substituted for the single Commissioner and the "Home Loan Bank Board" became a component part of the Housing and Home Finance Agency.

The Board continued in this relationship until the enactment of the "Housing Amendments of 1955," approved August 11, 1955, which reestablished the "Federal Home Loan Bank Board" as an independent agency.

Reorganization Plan No. 6 of 1961, effective August 12, 1961, transferred to the Chairman of the Board, the Board's functions with respect to the overall management, functioning, and organization of the Agency. The appointment, removal, and direction of personnel, the distribution of business among and the communication of Board policies to such personnel, the enforcement of policies, as well as other administrative and management functions were transferred to the Chairman.

Nothing in the transfer impinges upon the ability of the Members of the Board to act independently with respect to substantive matters. In carrying out his managerial functions, the Chairman is governed by the general policies of the heads of major administrative units, and the other Members of the Board retain their control over the personnel in their immediate offices.

Federal Savings and Loan Insurance Corporation

On June 27, 1934, Title IV of the National Housing Act provided for the creation of the Federal Savings and Loan Insurance Corporation and placed it under the direction and management of the Federal Home Loan Bank Board. The capital stock of the Corporation was $100,000,000. It was subscribed for by the former Home Owner's Loan Corporation. Retirement of the stock began in 1951 and was completed by July 1, 1958.

The Federal Savings and Loan Insurance Corporation insures the safety of savings against loss up to $100,000 for each insured member in all Federally-chartered associations and in State-chartered associations which apply and qualify for such insurance.

Federal Home Loan Mortgage Corporation

The Federal Home Loan Mortgage Corporation was established by Title III of the Emergency Home Finance Act of 1970 (84 Stat. 451-458), approved July 24, 1970. The Corporation's board of directors, by law, is comprised of the members of the Federal Home Loan Bank Board. The function of the Corporation is to provide a secondary market for residential mortgages. The operations are confined, so far as practicable, to residential mortgages which generally meet the purchase standards set by private institutional mortgage investors.

Neighborhood Reinvestment Corporation

The Neighborhood Reinvestment Corporation (formerly the Urban Reinvestment Task Force) was established by Public Law 95-557, approved October 31, 1978, to promote reinvestment in older neighborhoods by local financial institutions working cooperatively with local people and local government. The Chairman of the Federal Home Loan Bank Board serves as a member of a six-person board of directors.

PROGRAM HIGHLIGHTS

The Federal Home Loan Bank Board supervises and regulates the Federal Home Loan Bank System, the System of Federal Savings and Loan Associations and Savings Banks, and the Federal Savings and Loan Insurance Corporation, created to serve the American public through the media of savings and loan associations, cooperative banks, and other financial institutions engaged in the encouragement of thrift and economical home ownership.

The Federal Home Loan Bank Board is primarily a regulatory and supervisory agency in the savings and home-financing field. It issues charters for Federal savings and loan associations and Federal savings banks, and insures savings accounts in such institutions and in approved State-chartered savings and loan institutions.

The 1987 budget estimates of the Federal Home Loan Bank Board, and the Federal Savings and Loan Insurance Corporation are based on the need for increasing operations because of the complex problems arising from changing economic conditions, deregulation, and the continuing record number of failing savings institutions.

The costs of the Federal Home Loan Bank Board operations are met by assessing the twelve Federal Home Loan Banks and the Federal Savings and Loan Insurance Corporation for services rendered. Thus, while the Board restricts its expenditures to budget limitations, it receives no appropriated funds from the United States Treasury.

Federal Home Loan Bank System

The Federal Home Bank System, through its twelve regional Federal Home Loan Banks strategically located throughout the country, provides a permanent credit reserve for eligible institutions. The Federal Home Loan Banks advance funds to these member institutions to meet withdrawal demands, as well as seasonal and expansionary needs for additional home-mortgage funds. Through the use of interbank deposits, the System maintains flows of housing funds into every locality.

The regional Banks, the stock of which is owned by their member institutions, do not deal directly with individuals. The great majority of members are savings and loan associations, also known sectionally as building and loan associations, cooperative banks, and homestead associations. However, membership also includes savings banks, which have become more important recently, and five life insurance companies. Located in most cities, suburban areas, and towns throughout the United States, the System's member institutions serve more than 100 million people including savers, investors, and borrowers.

Member Institutions

The Federal Home Loan Bank System had a membership of 3,453 on September 30, 1985, 57 more than a year earlier. Last year's membership rise was the first since the mid-1960's, and was in especially sharp contrast to the large declines that occurred in the early 1980's, when large operating losses at many thrifts stemming from high market interest rates resulted in a sharp rise in both voluntary and supervisory mergers. Sharply improved earnings and the increased desirability of thrift charters stemming from the statutory expansion of thrift investment powers produced the switch.

Continuation of the recent more favorable financial climate over the next several years is expected to result in an increase of 30 in Bank System members in fiscal 1986 to 3,483, and a slightly further rise in fiscal 1987 to 3,488.

Number and Assets of Members of the Federal Home Loan Bank System

Fiscal Year-End	Number	Assets (Billions)
1950	3,898	$ 15.4
1955	4,272	34.0
1960	4,674	65.8
1965	5,043	128.6
1970	4,714	173.3
1975	4,310	333.7
1980	4,250	656.5
1981	4,108	717.4
1982	3,636	747.3
1983	3,428	870.7
1984	3,396	1,035.1
1985*	3,453	1,146.5
1986**	3,483	1,260.7
1987**	3,488	1,399.4

*Preliminary Actual
**Estimate

Assets of members of the Federal Home Loan Bank System have risen substantially further in recent years, despite the decline in the number of institutions during most of the period. The increase in fiscal 1985 was 11 percent resulting in September 30 assets of $1,147 billion. This rise, however, was substantially less than the near-record 19 percent increase in fiscal 1984, in part because of regulatory action taken by the Bank Board designed to curb imprudent growth and increase industry capitalization. An increase in assets of about 10 percent is anticipated for both the current fiscal year and for fiscal 1987.

Over ninety-three percent of member institutions had their deposits insured by the Federal Savings and Loan Insurance Corporation, and an additional 5 percent were insured by the Federal Deposit Insurance Corporation. Of the 63 savings and loan members not Federally insured, 37 were co-operative banks that were members of the Massachusetts Share Insurance Fund of the Co-operative Central Bank but are expected to obtain Federal insurance soon.

The following shows the composition of membership at the end of September of the last two years:

Type of Member	September 30, 1984 Number	September 30, 1984 Assets**	September 30, 1985* Number	September 30, 1985* Assets**
Savings and loan associations				
Federal Charter--Insured by FSLIC	1,505	$525,227	1,422	$ 540,155
State Charter--Insured by FSLIC	1,462	330,774	1,513	374,304
State Charter--Not Federally insured	74	3,881	63	4,070
Sub-total	3,041	$859,882	2,998	918,529
Savings Banks				
Federal Charter--Insured by FSLIC	197	$ 82,174	289	126,827
Federal Charter--Insured by FDIC	23	42,373	28	47,099
State Charter--Insured by FDIC	130	50,412	133	53,869
Subtotal	350	$174,959	450	227,795
Insurance Companies	5	220	5	195
Total Members	3,396	$1,035,061	3,453	$1,146,519

*Preliminary Actual
**In Millions

Mortgage Loans Made By FSLIC-Insured Member Institutions

Mortgage lending by FSLIC-insured members totaled a record $182 billion in fiscal 1985, slightly more than the 1984 volume. Lending volume is expected to rise moderately further in both fiscal 1986 (to $190 billion) and fiscal 1987 (to $200 billion), as a result of continued strong demand for funds and a relatively favorable interest rate environment. This trend in mortgage lending is shown in the following table:

Mortgage Loans Made by FSLIC-Insured Members
(in millions of dollars)

Fiscal Year	Amount	Fiscal Year	Amount
1950	4,302	1979	119,945
1955	11,391	1980	85,580
1960	16,143	1981	75,822
1965	27,229	1982	52,350
1970	20,929	1983	129,658
1975	44,825	1984	181,651
1976	76,612	1985*	181,792
1977	113,433	1986**	190,000
1978	125,974	1987**	200,000

*Preliminary Actual
**Estimated

All types of mortgage lending by FSLIC-insured members was in about the same volume in fiscal 1985 as a year earlier. Approximately 75 percent of lending in both years was on residential property. Lending volume for the last three fiscal years is classified by type in the following table:

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Mortgage Loans Made by FSLIC-Insured Members Classified by Purpose
(in Millions of Dollars)

Loan Type	Fiscal 1983	Fiscal 1984	Fiscal 1985*
Construction of:			
Homes	$ 12,190	$ 16,265	$ 16,303
Other Residential Property	11,099	12,220	9,366
Non-Residential Property	10,104	16,552	15,816
Other Purposes Secured by:			
Homes	72,685	97,276	97,395
Other Residential Property	7,249	12,371	13,019
Other Improved Real Estate	12,034	19,080	19,588
Land	4,298	7,887	10,307
Total	$129,658	$181,651	$181,792

*Preliminary Actual

Deposit Flow At FSLIC-Insured Institutions

The net deposit inflow of FSLIC-insured institutions totaled $69.9 billion in fiscal 1985, nearly one-third less than a year earlier. This reduction in part reflected the Bank Board actions designed to curb imprudent growth noted above. Deposit inflow is expected to rise about 10 percent in both fiscal 1986 and 1987, but will remain below earlier highs, as shown below:

Net Deposit Gain at FSLIC-Insured Institutions
(in Billions of Dollars, Includes Interest Credits)

Fiscal Year	Amount	Fiscal Year	Amount
1950	1.5	1981	18.2
1955	4.6	1982	28.2
1960	6.7	1983	107.0
1965	9.3	1984	102.2
1970	3.9	1985*	69.9
1975	30.3	1986**	85.0
1980	34.8	1987**	100.8

*Preliminary Actual
**Estimated

Summary Of Activities

The following table summarizes the condition of the members of the Federal Home Loan Bank System at September 30, 1985, and also provides our estimates for the fiscal years ending September 30, 1986 and 1987:

Selected Data for Federal Home Loan Bank System
Member Institutions and the Federal Home Loan Banks
(Dollars in Millions)

Item	Sept. 30, '85 Actual *	Sept. 30, '86 Estimate	Sept. '87 Estimate
Member Institution:			
Number	3,453	3,483	3,488
Assets	$1,146,500	$1,260,700	$1,399,400
Deposits	$ 922,400	$1,016,700	$1,128,500
Mortgage Loans and Mortgage-Backed Securities.	$ 819,000	$ 890,500	$ 976,000
Federal Home Loan Banks:			
Advances Outstanding	$ 85,700	$ 96,000	$ 105,000

*Preliminary Actual

FEDERAL SAVINGS AND LOAN ASSOCIATIONS

The creation of Federal associations was authorized by Congress in 1933 to provide additional local thrift institutions for people to place their savings and/or obtain loans to finance their homes. All Federal savings and loan associations are required to be members of the Federal Home Loan Bank System and to carry insurance of their savings accounts with the Federal Savings and Loan Insurance Corporation.

As of September 30, 1985, there were 1,422 Federal savings and loan associations operating under charter, examination, and supervision of the Federal Home Loan Bank Board. Their combined resources were $540 billion. Federal savings and loan associations are in operation in every state, in the District of Columbia, and in Puerto Rico.

FEDERAL SAVINGS BANKS

Federal charters for savings banks were authorized by Congress in 1978. Newly chartered banks must be members of the FSLIC, but banks that convert from state charter and had been insured by the FDIC may continue FDIC insurance. All must be members of the Federal Home Loan Bank System. On September 30, 1985, 289 Federal savings banks with assets of $127 billion had FSLIC insurance and 28 Federal banks with assets of $47 billion had FDIC insurance.

FEDERAL SAVINGS AND LOAN INSURANCE CORPORATION

Created in 1934, the Federal Savings and Loan Insurance Corporation (FSLIC) insures deposits up to $100,000 in approved savings and loan associations and similar institutions. Insurance of savings has been an important factor in stimulating the flow of savings into thrift and home-financing institutions. The number of insured institutions at September 30, 1985 was 3,224; their combined assets were $1,041.3 billion. All FSLIC insured institutions are members of the Federal Home Loan Bank System.

SUMMARY OF AGENCY EXPENSES

The budget programs of the Federal Home Loan Bank Board including the Federal Savings and Loan Insurance Corporation are presented as business-type budgets.

The budget estimates for 1987, the revised estimates for the current fiscal year, and actual expenses for fiscal 1985 are summarized in the following two tables:

Comparative Summary of Full-time Equivalent (FTE) Positions

Unit	Actual 1985	Estimate 1986	Estimate 1987
	FTE	FTE	FTE
Board and Staff Offices.....	488	558	587
Federal Savings and Loan Insurance Corporation...	18	19	19
Office of Examinations and Supervision..........	679	0	0
Total..............	1,185	577	606

Comparative Summary of Expenses

Unit	1985 Actual	1986 Budget Estimate	1986 Current Estimate	1987 Estimate	Increase or Decrease(-)
ADMINISTRATIVE EXPENSES					
Board and Staff Offices.................	$25,322,249	$26,877,000	$30,306,000	$32,193,000	$ 1,887,000
Federal Savings & Loan Insurance Corp....	1,210,131	1,440,000	1,440,000	1,466,000	26,000
Sub-Total..............	$26,532,380	$28,317,000	$31,746,000	$33,659,000	$ 1,913,000
NONADMINISTRATIVE EXPENSES					
Office of Examinations & Supervision............	$34,853,649	$ -0-	$ -0-	$ -0-	$ -0-
Total...................	$61,386,029	$28,317,000	$31,746,000	$33,659,000	$ 1,913,000
Estimated Savings..........	$ 8,631,971*	....	....	....	....
Proposed Supplemental for Costs of Additional Staff...................	....	....	- 3,429,000	....	....
Actual, Authorization & Estimate.............	$70,018,000	$28,317,000	$28,317,000	$33,659,000	$ 5,342,000

* The considerable savings in FY 1985 expenses compared with the Congressionally approved budget results from the July 1985 reorganization whereby the field examination function was delegated to the Principal Supervisory Agent of each of the twelve Federal Home Loan Banks.

COMPARISON OF AVERAGE GRADES AND SALARIES

	1985 Actual	1986 Estimate	1987 Estimate
Board and Staff Offices			
Average SES salary	$68,415	$68,500	$68,500
Average GS Grade	10.36	10.40	10.40
Average GS salary	$33,653	$34,154	$34,529
Average salary of ungraded positions	$23,506	$23,765	$24,025
Field Offices of Examination and Supervision			
Average GS grade	11.20	-	-
Average GS salary	$34,770	-	-
Federal Savings and Loan Insurance Corporation			
Average SES salary	$68,700	$68,700	$68,700
Average GS grade	10.18	11.25	11.25
Average GS salary	$32,820	$36,669	$37,072

CONSOLIDATED SCHEDULE OF PERMANENT POSITIONS

	1985 Actual	1986 Estimate	1987 Estimate
Executive level III	1	1	1
Executive level II	2	2	2
Subtotal	3	3	3
ES-5	1	1	1
ES-4	11	8	8
ES-3	2	8	8
ES-2	0	2	2
Subtotal	14	19	19
GS/GM-15	52	62	65
GS/GM-14	62	74	77
GS/GM-13	52	63	65
GS-12	54	65	67
GS-11	20	24	25
GS-10	6	7	8
GS-9	17	21	22
GS-8	28	33	34
GS-7	67	80	83
GS-6	34	41	42
GS-5	27	32	33
GS-4	15	19	20
GS-3	6	7	8
GS-2	2	3	4
Subtotal	442	531	553
Ungraded (Wage Board)	13	13	13
Total permanent positions	472	571	588
Unfilled positions, end of year	16	20	20
Total permanent employment, end of year	488	591	608

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Federal Home Loan Bank Board Revolving Fund

A. Statement of Sources and Application of Funds

	1985 Actual	1986 Estimate	1987 Estimate
FUNDS APPLIED			
To Operations			
Acquisition of Assets:			
Furniture, Fixtures, and Equipment	$ 2,319,177	$ 1,810,000	$ 3,110,000
[illegible]	1,656,315	1,655,000	850,000
Expenses:			
Administrative Expense	23,615,355	24,709,000	31,025,000
Nonadministrative Expense:			
Cost of Examining and Supervising Savings and Loan Associations	33,950,809	-0-	-0-
Building Operating Expense	2,294,526	4,738,000	5,170,000
Increase in Selected Working Capital	-0-	889,000	-0-
Prior Period Adjustment	4,137,260	-0-	-0-
Total Funds Applied	67,973,442	33,801,000	40,155,000
FUNDS PROVIDED			
By Operations			
Income	63,256,996	33,801,000	39,871,000
Decrease in Selected Working Capital	4,686,134	-0-	284,000
Total Funds from Operations	67,943,130	33,801,000	40,155,000
By Financing			
Decrease in Treasury Cash	30,312	-0-	-0-
Total Funds Provided	67,973,442	33,801,000	40,155,000
BUDGET EXPENDITURES			
Funds Applied to Operations	67,973,442	33,801,000	40,155,000
Funds Provided by Operations	67,943,130	33,801,000	40,155,000
Net Budget Expenditures	30,312	-0-	-0-

150

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Federal Home Loan Bank Board Revolving Fund
B. Statement of Income and Expense

	1985 Actual	1986 Estimate	1987 Estimate
Income			
Examining Fees and Charges	$25,055,043	$ -0-	$ -0-
Assessment for Services and Facilities:			
Federal Savings and Loan Insurance Corporation	25,987,000	24,133,000	28,737,000
Federal Home Loan Banks	10,709,511	7,849,000	9,579,000
Rental Income from Building	1,361,097	1,669,000	1,405,000
Reimbursements from Other Accounts	494,213	-0-	-0-
Miscellaneous	144,345	150,000	150,000
Total Income	63,751,209	33,801,000	39,871,000
Expense			
Administrative Expense:			
Reimbursable Expense	-0-	-0-	-0-
Nonreimbursable Expense	23,615,355	24,709,000	31,025,000
Sub-Total	23 615,355	24,709,000	31,025,000
Depreciation on Furniture, Fixtures, and Equipment	1,380,935	1,012,000	1 168,000
Total Administrative Expense	24,996,290	25,721,000	32,193,000
Cost of Examining and Supervising Savings and Loan Associations:			
Reimbursable Expense	494,213	-0-	-0-
Nonreimbursable Expense	33,950,809	-0-	-0-
Sub-Total	34,445,022	-0-	-0-
Depreciation on Furniture, Fixtures, and Equipment	77,959	-0-	-0-
Total Cost of Examining and Supervising Savings and Loan Associations	34,522,981	-0-	-0-
Building Operating Expense	2,294,526	4,738,000	5,170,000
Depreciation on Building Equipment and Amortization of Tenant Improvements	897,868	935,000	953,000
Total Building Expense	3,192,394	5,673,000	6,123,000
Total Expense	62,711,665	31,394,000	38,316,000
Net Income (Loss)	1,039,544	2,407,000	1,555,000

ANALYSIS OF DEFERRED AND UNDISTRIBUTED CREDITS

	1985 Actual	1986 Estimate	1987 Estimate
Deferred and Undistributed Credits, Beginning of Year	55,757,568	52,659,852	55,066,852
Prior Period Adjustment	- 4,137,260	-0-	-0-
Deferred and Undistributed Credits, End of year	52,659,852	55,066,852	56,621,852

151

Federal Home Loan Bank Board Revolving Fund
C. Statement of Financial Condition

Assets	1984 Actual	1985 Actual	1986 Estimate	1987 Estimate
Cash with U.S. Treasury	$ 1,382,534	$ 1,352,222	$ 1,352,222	$ 1,352,222
Accounts Receivable, Net	12,210,849	4,665,946	11,903,611	11,800,000
Fixed Assets: Land, Building and Tenant Improvements, Net	46,128,379	46,886,826	47,606,826	47,503,826
Furniture, Fixtures and Equipment, Net	5,166,743	6,027,076	6,875,076	8,767,076
Total Assets	64,888,505	58,932,020	67,687,685	69,423,074
Liabilities				
Current Liabilities	9,130,937	6,272,168	12,620,833	12,801,222
Deferred and Undistributed Credits	11,173,288	8,075,572	10,482,572	12,037,572
Paid in Capital, Federal Home Loan Bank Board Building	44,584,280	44,584,280	44,584,280	44,584,280
Total Liabilities	64,888,505	58,932,020	67,687,685	69,423,074

Board and Staff Offices

Summary

The 1987 estimates of administrative expenses of the Board and Staff Offices, the revised estimates for the current fiscal year, and actual expenses for 1985 are summarized in the following table:

Description	1985 Actual	1986 Budget Estimate	1986 Current Estimate	1987 Estimate	Increase or Decrease(-)
Full-Time Equivalent (FTE) Positions............	468	463	558	587	29
Personnel Compensation...........	$16,927,124	$16,713,000	$19,624,000	$21,067,000	$ 1,443,000
Personnel Benefits	1,954,160	1,991,000	2,240,000	2,409,000	169,000
Subtotal......	18,881,284	18,704,000	21,864,000	23,476,000	1,612,000
Contractual Services & Supplies.	5,414,434	7,001,000	7,262,000	7,405,000	143,000
Acquisition of Capital Assets...	1,026,531	1,172,000	1,180,000	1,312,000	132,000
Total Expenses......	25,322,249	26,877,000	30,306,000	32,193,000	1,887,000
Savings...........	168,751	....	....	....	....
Proposed Supplemental for Costs of Additional Staff............	....	....	- 3,429,000	....	....
Actual, Authorization, & Estimate.	$25,491,000	$26,877,000	$26,877,000	$32,193,000	$ 1,887,000

Fiscal Year 1986

Our 1986 revised estimate includes an Administration supported supplemental of $3,429,000 to fund an increase of 95 staff positions in 3 of the Board's operating offices. Details of staffing are shown on the following page.

Fiscal Year 1987

Our 1987 budget estimate of $32,193,000 represents an increase of $1,887,000 or 6.2% more than the current 1986 estimate including the requested supplemental. Most of the FY 1987 increase is to fund an Administration approved increase of 29 staff positions in the agency's Office of General Counsel.

The total increase of $1,887,000 by category of expense, is shown below.

Item	Increased Amount
Personnel Compensation	$1,443,000
Personnel Benefits	169,000
Travel and Transportation of Persons	107,000
Transportation of Things	10,000
Rent, Communications, and Utilities	- 66,000
Printing and Reproduction	- 99,000
Other Services	149,000
Supplies and Materials	42,000
Acquisitions of Capital Assets	132,000
Total	$1,887,000

Analysis of Expenses - Detail

A Comparative Summary of Administrative Expenses for the Bank Board and Staff Offices for fiscal years 1985, 1986, and 1987, followed by an outline of Personal Services, Other Object Classifications by type of expense, and including Analyses and Justification of the need for such expenses, begins on the following page.

COMPARATIVE SUMMARY OF ADMINISTRATIVE EXPENSES

	1985 Actual		1986 Budget Estimate		1986 Current Estimate		1987 Estimate	
	Full-Time Equivalent	Amount	Full-Time Equivalent	Amount	Full-Time Equivalent	Amount	Full-Time Equivalent	Amount
Personnel Services and Benefits:								
Personnel Compensation:								
Office of the Chairman..........	8	$ 371,972	7	375,000	7	$ 391,000	7	$ 394,000
Office of Board Member Hovde....	4	209,503	4	200,000	4	221,000	4	223,000
Office of Board Member Grigsby	4	187,398	4	200,000	4	221,000	4	223,000
Communications Office...........	15	544,774	12	470,000	12	522,000	12	528,000
Minority Affairs Office.........	5	117,166	4	153,000	4	130,000	4	133,000
Personnel Management Office....	25	812,256	25	734,000	25	774,000	25	789,000
Secretariat.....................	28	772,060	27	693,000	27	679,000	27	694,000
Congressional Relations Office.	4	141,238	4	166,000	4	153,000	4	156,000
Office of Enforcement*..........	0	-0-	-0-	-0-	14	477,000	14	495,000
Administration Office...........	5	219,418	6	193,000	5	216,000	5	218,000
Administrative Services Division......................	34	973,311	30	944,000	30	951,000	30	904,000
Controller's Division........	30	974,256	34	870,000	34	870,000	34	910,000
Information Systems Division.	51	1,765,053	57	1,865,000	57	1,808,000	57	1,881,000
Budget Division.............	8	249,599	8	253,000	8	256,000	6	260,000
Management Analysis Staff....	4	156,339	6	174,000	6	166,000	6	171,000
Office of Policy and Economic Research.........	31	1,144,379	33	1,229,000	30	1,408,000	30	1,678,000
Office of General Counsel......	89	3,915,020	89	3,845,000	102	4,111,000	131	5,390,000
Office of the Inspector General......................	13	499,307	13	497,000	13	504,000	13	511,000
Office of District Banks.......	30	1,030,676	32	1,031,000	32	1,041,000	32	1,058,000
Office of Examinations and Supervision..............	60	2,442,475	90	2,463,000	113	4,072,000	113	4,062,000
Office of Community Investment.	12	408,347	11	493,000	11	493,000	11	509,000
TOTAL PERSONNEL COMPENSATION........	468	$16,927,124	483	$16,713,000	558	$19,824,000	587	$21,067,000
Personnel Benefits:								
Federal Employees' Compensation Benefits......................		113,499		172,000		122,000		140,000
Health Benefits................		390,037		409,000		425,000		450,000
Life Insurance.................		33,322		54,000		49,000		51,000
Moving Expenses................		6,589		15,000		15,000		15,000
Retirement.....................		1,099,343		1,100,000		1,242,000		1,318,000
Social Security Tax (FICA).....		70,589		68,000		93,000		100,000
Medicare Benefits..............		181,340		107,000		224,000		260,000
Severance Pay..................		-0-		7,000		8,000		9,000
Unemployment Compensation for Federal Employees............		51,956		37,000		62,000		65,000
Uniform Allowances.............		570		1,000		1,000		1,000
TOTAL PERSONNEL BENEFITS...........		1,954,160		1,990,000		2,240,000		2,409,000
*TOTAL PERSONNEL SERVICES AND BENEFITS............................		$18,881,284		$18,703,000		$22,064,000		$23,476,000

*Effective November 14, 1985, the Enforcement Division of the Office of General Counsel was redesignated as the Office of Enforcement which now operates as a separate staff office within the agency.

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COMPARATIVE SUMMARY OF ADMINISTRATIVE EXPENSES
(Continued)

	1985 Actual	1986 Budget Estimate	1986 Current Estimate	1987 Estimate
	Amount	Amount	Amount	Amount
Contractual Services & Supplies:				
Travel and Transportation of Persons..........................	$ 999,135	$ 1,005,000	$ 956,000 B/	$ 1,063,000
Transportation of Things..........	79,052	80,000	80,000	90,000
Rent, Communications & Utilities.	1,902,964	1,930,000	2,290,000 C/	2,224,000
Printing and Reproduction.........	393,758	470,000	470,000 C/	371,000
Other Services.....................	2,030,305	2,094,000	2,888,000 B/C/	3,037,000
Supplies and Materials............	519,220	592,000	578,000	620,000
TOTAL CONTRACTUAL SERVICES & SUPPLIES.	5,414,434	7,088,000	7,262,000	7,405,000
Acquisition of Capital Assets:				
Equipment............................	1,076,531	1,177,000	1,180,000	1,312,000
TOTAL GROSS EXPENSES..................	25,321,249	26,877,000	30,306,000	32,193,000
Savings................................	169,751	....	....	....
Proposed Supplemental for Costs of Additional Staff.......................	....	....	- 3,429,000 A/	....
ACTUAL, AUTHORIZATION AND ESTIMATE....	25,491,000	26,877,000	26,877,000	32,193,000

NOTES: A.) The FY 1986 current estimate includes a proposed supplemental for the expenses of 95 additional staff positions. The FY 1987 estimate includes consideration of a further increase of 29 staff positions.

B.) In July 1985, the Bank Board delegated the responsibility for the examinations of FSLIC - insured savings institutions to the Federal Home Loan Banks which are "off-budget" Government - sponsored entities. Consistent with this change, the former limitation on examination expenses was deleted from the Bank Board's appropriation language as indicated in the FY 1986 HUD - Independent Agencies Appropriation Act, P.L. 99-160. The $500,000 line item limitation for training State examiners formerly a part of the nonadministrative expense limitation was retained by transfer to the Bank Board's administrative expense limitation. This expense is included in the above FY 1986 current estimate and the FY 1987 estimate in an annual amount of $250,000 for training/tuition fees and $250,000 for travel costs incident to such training. This is also identified in further detail on the following pages.

C.) Also related to the transfer of the examination function, the Subcommittees provided for a one-time, $500,000 allowance under the enacted FY 1986 administrative expense limitation for certain limited transition expenses relative to this transfer. This is detailed in the following pages in the following expense categories: Printing & Reproduction, FTS Long-Distance Communications, Office Space Rental, Telecommunications, Training, and Professional Services.

Personnel Compensation

	1985 Actual	1986 Budget Estimate	1986 Current Estimate	1987 Estimate	Increase or Decrease(-)
Full-Time Equivalent (FTE) Positions:					
Full-Time Permanent....	444	447	542	571	29
Other..................	24	16	16	16	-0-
Total FTE..........	468	463	558	587	29

A breakdown of Full-Time Equivalent Positions by each Office is as follows:

FTE Positions	1985 Actual	1986 Budget Estimate	1986 Current Estimate	1987 Estimate	Increase or Decrease(-)
Office of the Chairman	8	7	7	7	-0-
Office of Board Member (Hovde)...............	4	4	4	4	-0-
Office Board Member (Grigsby)............	4	4	4	4	-0-
Communications Office.	15	12	12	12	-0-
Minority Affairs Office	5	4	4	4	-0-
Personnel Management Office...............	25	25	25	25	-0-
Secretariat...........	28	27	27	27	-0-
Congressional Relations Office...............	4	4	4	4	-0-
Office of Enforcement..	-0-	-0-	14	14	-0-
Administration Office.	5	5	5	5	-0-
Administrative Services Division...........	34	38	38	38	-0-
Controller's Division	38	34	34	34	-0-
Information Systems Division............	51	57	57	57	-0-
Budget Division......	8	8	8	8	-0-
Management Analysis Staff.............	4	6	6	6	-0-
Office of Policy and Economic Research....	31	33	38	38	-0-
Office of General Counsel..............	89	89	102	131	29
Office of the Inspector General..............	13	13	13	13	-0-
Office of District Banks................	30	32	32	32	-0-
Office of Examinations & Supervision...	60	50	113	113	-0-
Office of Community Investment............	12	11	11	11	-0-
Total............	468	463	558	587	29
Gross Salary ($000)	$16,927	$16,713	$19,624	$21,067	$ $1,443

Personnel Benefits

	1985 Actual	1986 Budget Estimate	1986 Current Estimate	1987 Estimate	Increase or Decrease(-)
Federal Employees' Compensation Act.....	$ 113,490	$ 122,000	$ 122,000	$ 140,000	$ 18,000
Health Benefits.......	398,037	400,000	425,000	450,000	25,000
Life Insurance........	33,322	54,000	48,000	51,000	3,000
Retirement............	1,098,343	1,100,000	1,242,000	1,318,000	76,000
Social Security Taxes (FICA)...............	70,582	68,000	93,000	100,000	7,000
Severance Pay.........	-0-	7,000	8,000	9,000	1,000
Uniform Allowances....	500	1,000	1,000	1,000	-0-
Relocation Expenses...	6,582	15,000	15,000	15,000	-0-
Unemployment Compensation Federal Employees (UCFE)...........	51,956	37,000	62,000	65,000	3,000
Medicare Benefits.....	181,348	187,000	224,000	260,000	36,000
Total	$1,954,160	$1,991,000	$2,240,000	$2,409,000	$ 169,000

Federal Employees' Compensation Act

The 1987 estimate of $140,000 provides for reimbursement to the Department of Labor, Office of Workers' Compensation Programs, for benefits and other payments made to Bank Board employees under Section 209 of Public Law 86-767, approved September 13, 1960.

Health Benefits

The 1987 estimate of $450,000 provides for the Bank Board's (Employer) share of the cost of the Federal Employees' Health Benefits Act of 1959 (Public Law 86-382); it is based upon actual cost in the current year.

Life Insurance

The 1987 estimate of $51,000 represents the Bank Board's (Employer) portion of the premiums payable under the Federal Employees' Group Life Insurance Act of 1954; it is based upon the number of employees expected to be on the payroll in fiscal year 1987.

Retirement

The 1987 estimate of $1,318,000 provides for the Bank Board's (Employer) share of mandatory contributions to the Civil Service Retirement and Disability Fund pursuant to Section 102 (A) of Public Law 91-93, approved October 20, 1969; it is at the rate of 7% of employees' basic salaries. The figure is based upon the number of employees expected to be on the payroll in fiscal year 1987.

Personnel Benefits (continued)

Social Security Taxes (FICA)

The 1987 estimate of $100,000 provides for the Bank Board's (Employer) share of contributions under the Federal Insurance Contributions Act. Payment is made for all employees who do not contribute to the Civil Service Retirement and Disability Fund.

Severance Pay

The 1987 estimate of $9,000 provides pay for employees whose services are involuntarily terminated and who are eligible for such payments.

Uniform Allowances

The 1987 estimate of $1,000 provides for uniform allowances for Bank Board employees in accordance with Public Law 5 U.S.C. 5901-5902.

Relocation Expenses

The 1987 estimate of $15,000 provides for the payment of certain moving and related expenses as provided for in Public Law 89-516. Included in this category are reimbursements to employees for subsistence and temporary expenses incurred in moving from one location to another, real estate costs in connection with selling the residence at the old official station and purchasing a new home at the new official station, and certain miscellaneous moving expenses.

Unemployment Compensation Federal Employees (UCFE)

The 1987 estimate of $65,000 provides for reimbursing the Department of Labor for the cost of regular and extended UCFE benefits paid to the various states on behalf of former Bank Board employees. These funds are deposited quarterly by the Bank Board into an account in the United States Treasury entitled "Federal Employees Compensation Account" as required by Public Law 96-499, approved December 5, 1980.

Medicare Benefits

The 1987 estimate of $260,000 provides for the Bank Board's (Employer) share of contributions pursuant to Section 278 of Public Law 97-248, approved September 3, 1982. Section 278 amended the Federal Insurance Contribution Act to provide Medicare coverage to Federal employment and to apply the hospital insurance tax to Federal employment.

Travel and Transportation of Persons

	1985 Actual	1986 Budget Estimate	1986 Current Estimate	1987 Estimate	Increase or Decrease(-)
Office of the Chairman	$ 77,905	$ 80,000	$ 80,000	$ 87,000	$ 7,000
Office of Board Member Hovde................	33,844	25,000	35,000	38,000	3,000
Office of Board Member Grigsby.............	22,498	25,000	35,000	38,000	3,000
Administration Office.	7,367	8,000	8,000	9,000	1,000
Administrative Services Division......	14,933	23,000	23,000	25,000	2,000
Budget Division.......	2,659	2,000	3,000	3,000	-0-
Controller's Division............	14,386	12,000	16,000	17,000	1,000
Information Systems Division............	28,679	28,000	30,000	33,000	3,000
Management Analysis Staff...............	-0-	3,000	2,000	2,000	-0-
Communications Office.	20,501	25,000	25,000	27,000	2,000
Congressional Relations Office..............	3,665	7,000	5,000	5,000	-0-
Minority Affairs Office...............	8,792	8,000	10,000	11,000	1,000
Personnel Management Office..............	21,819	10,000	20,000	22,000	2,000
Secretariat...........	7,301	8,000	8,000	9,000	1,000
Office of Community Investment..........	16,916	15,000	18,000	20,000	2,000
Office of District Banks................	38,137	31,000	40,000	44,000	4,000
Office of the Inspector General.............	26,495	23,000	30,000	33,000	3,000
Office of Examinations and Supervision.....	55,440	60,000	86,000	120,000	34,000
Office of General Counsel.............	145,216	145,000	157,000	188,000	31,000
Office of Policy and Economic Research...	19,737	25,000	25,000	27,000	2,000
Advisory Council......	22,845	22,000	50,000	55,000	5,000
State Examiners	-0-	250,000	250,000	250,000	-0-
Total.............	$589,135	$835,000	$956,000	$1,063,000	$107,000

The 1987 estimate of $1,063,000 includes $250,000 to be used exclusively for the travel of State savings and loan examiners incident to their attendance at Board-sponsored training. The balance of $813,000 is provided for the travel of the Bank Board, its staff, and Advisory Council members in the conduct of official Council duties.

Transportation of Things

	1985 Actual	1986 Budget Estimate	1986 Current Estimate	1987 Estimate	Increase or Decrease(-)
	$ 79,052	$ 80,000	$ 80,000	$ 90,000	$ 10,000

This item provides for the cost of shipment of documents, supplies, and equipment to and from the Bank Board, and the moving of furniture and personal effects of employees transferred to or from the Bank Board.

Rent, Communications, and Utilities

	1985 Actual	1986 Budget Estimate	1986 Current Estimate	1987 Estimate	Increase or Decrease(-)
Rent and Utilities:					
Office and Storage Space............	$ 9,148	$ 10,000	$ 60,000 1/	$ 11,000	$ - 49,000
Equipment.........	500,565	478,000	552,000	599,000	47,000
Sub-total....	509,713	488,000	612,000	610,000	- 2,000
Communications:					
Local Phone Service.........	$ 265,783	$ 235,000	$ 317,000	$ 336,000	$ 19,000
Long Distance Calls............	647,351	780,000	925,000 2/	817,000	-108,000
Telegrams and Teletype........	-0-	2,000	1,000	1,000	-0-
Postage...........	380,117	425,000	435,000	460,000	25,000
Sub-total....	$1,293,251	$1,442,000	$1,678,000	$1,614,000	$ - 64,000
Grand Total.......	$1,802,964	$1,930,000	$2,290,000	$2,224,000	$ 66,000

Rent and Utilities:

1/ Space Rental: $50,000 of the current FY 1986 estimate is reserved as needed for the limited purpose of meeting specific, one-time expenses related to the transfer of the agency's former field examination operation to the Federal Home Loan Banks. The balance is to allow for off-site storage of critical backup computer tapes used in agency operations.

Equipment: The estimate of $599,000 provides for rental of the following equipment.

Description	Annual Rental
Terminals and Accessory Equipment.........	$205,000
Automatic Copying Machines and Accessory Equipment.......................	305,000
Miscellaneous............................	89,000
Total................................	$599,000

Following is an explanation of the use of each type of equipment shown above.

$205,000 is needed for the rental of computer terminals for multi-purpose use at the Bank Board. Terminals are needed to provide the staff with time-sharing and remote data processing at our in-house and out-of-house computer sites.

$305,000 is estimated to cover the expense associated with renting photo copying machines.

Miscellaneous rentals include facsimile machines, a film processor, news wire service teletypes, and a special desk-top computer used to aid in the design of forms, office space layouts, and other graphics assignments.

Communications: 2/

$150,000 of the current FY 1986 estimate for Long Distance Calls is reserved as needed for the limited purpose of meeting specific, one-time expenses related to the transfer of the agency's former field examination operation to the Federal Home Loan Banks. The increase in telephone cost for FY 1987 is due to greater usage and phone installation charges expected to result from the increased staffing. The 1987 postage cost estimate provided to the U.S. Postal Service is based upon the results of semiannual sample counts administered by the Service.

Printing and Reproduction

	1985	1986		1987	Increase or
	Actual	Budget Estimate	Current Estimate	Estimate	Decrease(-)
FHLBB Annual Report...	$ 3,088	$ 15,000	$ 10,000	$ 10,000	-0-
FHLBB Annotated Manual	100,000	20,000	-0-	-0-	-0-
Federal Register and Code of Federal Regulations (CFR).......	144,180	125,000	150,000	158,000	8,000
Forms and Other.......	146,490	310,000	310,000 1/	203,000	-107,000
Total............	393,758	470,000	470,000	371,000	- 99,000

The item of $15,000 provides for publishing the Federal Home Loan Bank Board Annual Report pursuant to Section 20 of the Federal Home Loan Bank Act.

During FY 1985, the agency ceased publication of its Annotated Manual, which contained excerpts of statutes and regulations applicable to agency operations. This information is now being obtained by subscription from a commercial service.

The item of $158,000 provides for the cost of printing regulatory amendments, notices, etc., in the Federal Register and in the Code of Federal Regulations.

1/ The item of $203,000 is for printing and reproduction of all other printing jobs including the printing of statistical data forms used by the agency. A one-time increase of $150,000 in the current FY 1986 estimate is reserved as needed for specific Printing or Reproduction expenses related to the transfer of the field examination function.

Other Services

		1986			
ADP Services:	1985 Actual	Budget Estimate	Current Estimate	1987 Estimate	Increase or Decrease(-)
Telecommunications......	$ 154,928	$ 150,000	$ 240,000 2/	$ 205,000	$ - 35,000
Computer Time...........	88,990	100,000	100,000	115,000	15,000
Data Conversion.........	115,000	110,000	115,000	122,000	7,000
Programming.............	54,081	75,000	65,000	71,000	6,000
Maintenance.............	257,955	296,000	309,000	340,000	31,000
Software Lease..........	48,431	55,000	60,000	70,000	10,000
Sub-Total...........	719,385	786,000	889,000	923,000	34,000
Federal Fin. Inst. Exam Council........	$ 124,600	$ 130,000	$ 135,000	$ 140,000	$ 5,000
Special Studies.........	12,000	105,000	200,000	220,000	20,000
Training Program........	227,104	502,000	571,000 2/	560,000	- 11,000
Contract Audits.........	245,600	320,000	260,000	300,000	40,000
Contractual Clericals...	190,039	200,000	200,000	230,000	30,000
Reporting Services...... - Hearings.............	25,747	30,000	40,000	45,000	5,000
Health Services Program.	49,742	44,000	60,000	65,000	5,000
Repairs to Furniture, Fixtures, and Equipment................	109,157	158,000	130,000	136,000	6,000
News Gathering Services............	23,117	34,000	36,000	38,000	2,000
Security Investigations.	-0-	32,000	20,000	22,000	2,000
Micro-Graphic Services..	34,163	35,000	50,000	50,000	-0-
Reception and Representation..............	1,453	1,500	1,500	1,500	-0-
Professional Services...	268,198	516,500	295,500 2/	306,500	11,000
Total...............	2,030,305	2,894,000	2,888,000	3,037,000	149,000

2/ The 1987 estimate of $3,037,000 is an increase of $149,000 or 5.2% over the 1986 revised estimate. Current FY 1986 estimates are reserved for the following expense categories and amounts under "Other Services" as needed for the limited purpose of meeting specific, one-time expenses related to the transfer of the agency's field examination operation to the Federal Home Loan Banks.

o Telecommunications	$ 75,000
o Training	50,000
o Professional Services	25,000
Total	$150,000

Other Services (continued)

ADP Services:

Telecommunications

These funds are used to provide the Bank Board access to commercial nation-wide networks for the processing of savings and loan financial data.

Computer Time

The estimate of $115,000 will be used for statistical analyses and modeling used principally by the Board's Office of Policy and Economic Research.

Data Conversion

These funds will be used to convert data collected from savings and loan institutions to machine readable form. This input is used to drive the systems required to monitor the savings and loan industry.

Programming

An amount of $71,000 is requested for programming services to cover the cost of programming and systems development which cannot be handled by our in-house staff.

Maintenance

The item of $340,000 is the cost for maintenance and repair contracts on agency-owned data processing equipment including our mainframe computers.

Federal Financial Institutions Examination Council

The 1987 estimate of $140,000 covers the Bank Board's 20% share of the 1987 operating expenses of the Federal Financial Institutions Examination Council pursuant to Public Law 95-630, approved November 10, 1978. This estimate is based upon data supplied by the Council.

Special Studies

The 1987 budget includes $220,000 to cover the estimated cost of special economic research studies and certain other professional services. The Bank Board uses these funds to conduct studies where outside expertise and experience is deemed necessary to augment in-house capability in support of the Board's policy, regulatory, and legislative initiatives.

The bulk of the Bank Board's research and analysis is accomplished by its in-house economic staff. However, due to periods of peak workload or, in some cases, a lack of in-house expertise in a few highly specialized areas, it is occasionally necessary to contract with nationally recognized experts to assist in such studies. Also, a program of sponsoring research on savings and loans at various universities throughout the country has proved a very successful and economical way to focus outstanding academic talent on the problems and prospects of the thrift industry.

Training

The 1987 budget estimate is $560,000 for training. The primary objectives of the training are:

(1) to increase employees' technical competence in carrying out responsibilities set forth by Congress and to keep current with the continuing demands of the industry;

(2) to further develop and refine supervisory and management skills needed to establish and maintain a high level of productivity and organizational effectiveness; and

(3) to maintain a productive administrative and clerical support staff which is essential to the efficiency of the organization.

These objectives will be met through (1) outside seminars and courses conducted by the Office of Personnel Management (OPM), universities and other organizations; (2) in-house courses conducted by Bank Board staff and consultants; and (3) materials and information provided for independent study.

Supervisory and management training will continue and will provide supervisors and managers with the skills to ensure that the Agency can accomplish its goals and objectives.

The FY 1986 current estimate includes $250,000 to be used exclusively for the training of State savings and loan examiners.

Contracts Audits

For 1987 $300,000 is requested for the annual financial audits of the twelve Federal Home Loan Banks, and the Office of Finance's Consolidated Securities Fund and Combined Cash and Securities Accounts. These audits are required by Section 20 of the Federal Home Loan Bank Act.

Reporting Services - Hearings

The 1987 estimate of $45,000 will provide funds for the cost of taking depositions and obtaining transcripts of hearings mostly in connection with investigations and other proceedings relating to problem savings institutions.

Health Services Program

The $65,000 Health Services Program funds are needed to:

1. Comply with the Presidential directive to the Office of Personnel Management on improving employee health services and the Office of Management and Budget (OMB), Circular A-72. The funds allow a continuation of the programs set up with executive health examiners to provide employee health examinations.

2. Maintain a health unit in accordance with Public Law 658 and Circular A-72.

3. Fund the Health Maintenance Program (e.g., hearing tests, glaucoma tests, flu shots, etc.).

Micrographic Services

This provides for the ongoing microfilming of important source documents from the various offices of the agency, various types of savings and loan applications submitted to the Board, savings and loan industry case files, and certain official Board records such as resolutions, orders, and minutes of Board meetings.

Supplies and Materials

	1985 Actual	1986 Budget Estimate	1986 Current Estimate	1987 Estimate	Increase or Decrease(-)
General Office Supplies.	$352,884	$354,000	$333,000	$358,000	$ 25,000
Copying Supplies........	37,123	100,000	105,000	115,000	10,000
Law Library Books.......	80,564	95,000	90,000	94,000	4,000
Research Library Books..	48,649	43,000	50,000	53,000	3,000
Total...............	$519,220	$592,000	$578,000	$620,000	$ 42,000

The 1987 estimate of $620,000 represents an increase of $42,000 from the 1986 current estimate. The following is a brief description of each of the items comprising Supplies and Materials.

1. The item of $358,000 provides for general supplies inventory and for the purchase of supplies not kept in stock.
2. The item of $115,000 provides for the purchase of copying supplies and materials used by the Reproduction Section of the Administrative Services Division.
3. The two items totaling $147,000 provide for the purchase of books and materials for our Research and Law Libraries, and subscriptions to newspapers and periodicals.

Acquisition of Capital Assets - Equipment

1985 Actual	1986 Budget Estimate	1986 Current Estimate	1987 Estimate	Increase(-) or Decrease
$1,026,531	$1,172,000	$1,180,000	$1,312,000	$132,000

It is the policy of the Bank Board to amortize the cost of furniture, fixtures, and equipment over an average life of ten years. Provision is therefore made in this category to cover the fixed depreciation expense on furniture, fixtures, and equipment currently owned, plus additional purchases anticipated during the current year and fiscal 1987.

Of the $1,312,000 provided for fiscal 1987, $1,100,000 represents depreciation expense; the remaining $212,000 covers noncapitalized equipment items included in this classification.

AUTHORIZATION LANGUAGE

Except for changes in the limitation amounts and deletion of a one-time provision in the 1986 act authorizing the Board to transfer title of certain examination offices property to the Federal Home Loan Banks, there are no differences between the proposed language for fiscal year 1987 and the language for fiscal year 1986.

SUPERVISION OF FEDERAL HOME LOAN BANKS
AND
EVALUATION AND PROCESSING OF INDUSTRY APPLICATIONS

The Office of District Banks is responsible for the dual functions of supervising the 12 Federal Home Loan Banks and evaluation and processing of thrift industry applications.

SUPERVISION OF FEDERAL HOME LOAN BANKS

OVERVIEW OF FEDERAL HOME LOAN BANK OPERATIONS

The Twelve Federal Home Loan Banks ("FHLBanks" or "Banks") constitute a national credit reservoir available to thrift and home-financing institutions. The Banks provide a source of funds available for housing credit demands, savings withdrawals, and liquidity needs of member institutions.

The Banks obtain their funds primarily from bonds and discount notes which are sold to the public. Other sources are member deposits and capital stock purchased by members, and to a lesser degree, earnings and inter-bank deposits.

Operating Highlights (Federal Home Loan Banks)

Description	Sept. 30, 1983	Sept.30, 1984	Sept. 30, 1985
		(In Thousands)	
Assets.................	$74,487,458	$93,566,842	$104,099,559
Liabilities...........	66,769,074	84,978,758	94,280,440
Capital Stock..........	6,255,454	6,940,382	8,097,388
Legal Reserve..........	991,638	1,146,975	1,357,168
Net Income for Year...	830,398	776,687	1,050,979
Investments (at Par)..	10,921,889	14,945,746	12,971,581

During FY 1985, assets increased by $10.5 billion, reflecting a decrease of $2.0 billion in investments and an increase of $12.7 billion in advances to members. Liabilities, consisting primarily of consolidated obligations, increased by $9.3 billion.

Capital Stock

The capital stock of the twelve Banks, $8.1 billion as of September 30, 1985, representing an increase of 16.7% over the amount at September 30, 1984, is owned totally by the member institutions. The United States Government had provided the original capital of the Banks by investing $124.7 million over a period of years. This investment was retired as of July 2, 1951 by the Banks at a rate in excess of the statutory requirements.

Consolidated Obligations - Bonds

All issues of consolidated obligations - bonds - are the joint and several obligations of the Banks.

The following table shows the amount and number of offerings for the years indicated:

Fiscal Year	Number of Offerings	Amount in Millions
1977	8	3,600
1978	9	7,900
1979	12	9,100
1980	16	13,000
1981	25	22,450
1982	26	19,100
1983	23	11,520
1984	31	19,850
1985	36	25,910

As indicated, the Federal Home Loan Banks made 36 bond offerings of consolidated obligations totaling $25.91 billion during FY 1985. Maturities of all 36 issues were one year or longer. The coupon rate ranged from 8.25% to 12.05% and compares with the FY 1984 range of 7.375% to 13.70%. The total amount of the bond offering represented an increase of $6.06 billion, or 31% above the $19.85 billion amount offered during FY 1984. In addition to bonds, the Banks offered $24.1 billion in short-term discount notes. The proceeds from all offerings were used to meet the demands of the membership for credit and to repay maturing issues.

The following table shows cumulative totals of consolidated obligations -bond issues, retired, and outstanding as of September 30, 1983, 1984, and 1985.

Description	Sept. 30, 1983	Sept. 30, 1984	Sept. 30, 1985
		(In Thousands)	
Issued................	$179,652,250	$199,502,250	$225,412,250
Retired...............	133,021,985	147,466,985	165,202,250
Outstanding...........	$ 46,630,265	52,035,265	60,210,000

The $60.2 billion balance outstanding as of September 30, 1985, represents an increase of $8.2 billion or 15.7% from the comparable total as of September 30, 1984.

Advances to Members

The following table illustrates the trend in advances to member institutions, repayments, and balances outstanding for the fiscal years indicated.

Fiscal Year	Advances	Repayments	Outstanding
	(In Millions)		
1977	10,256.7	9,265.0	17,053.5
1978	23,883.3	11,779.0	29,157.8
1979	27,743.3	18,305.1	38,596.0
1980	34,307.8	28,742.3	44,161.5
1981	52,197.3	32,011.6	64,347.2
1982	45,537.7	42,242.9	67,642.0
1983	45,049.3	54,829.3	57,862.0
1984	75,130.2	59,987.5	73,004.7
1985	124,916.4	112,175.7	85,745.4

Advances made to member institutions during FY 1985 aggregated $124.9 billion, an increase of $49.8 billion over the $75.1 billion advances made during FY 1984. The balance outstanding aggregated $85.7 billion, an increase over the previous fiscal year of $12.7 billion or 17.5%. Repayments were $112.2 billion in FY 1985 as compared to $60.0 billion in FY 1984, an increase of $52.2 billion.

Financial Condition

Beginning on the following pages, the financial statements of the Banks, as of September 30, 1985, are presented as listed below:

1. Combined Statement of Condition
2. Combined Statement of Income and Expense
3. Combined Statement of Income and Disposition of Net Income

FEDERAL HOME LOAN BANKS
COMBINED STATEMENT OF CONDITION
AS OF DATES INDICATED
(In Thousands)

	September 30, 1985	September 30, 1984	Increase or Decrease(-)
CASH	$ 948,022	$ 623,879	$ 324,143
INVESTMENTS			
Securities (par)			
U.S. Treasury	789,650	740,200	49,450
Government Agencies	- 0 -	5,000	(5,000)
Other	12,031,931	14,050,546	(2,018,615)
Sub-Total	12,821,581	14,795,746	(1,974,165)
Investment in FHL Mort. Corp.	150,000	150,000	-0-
Total Investment	12,971,581	14,945,746	(1,974,165)
ADVANCES OUTSTANDING			
To Members	85,745,385	73,004,726	12,740,659
To FHL Mortgage Corporation	1,190,000	1,790,000	(600,000)
Total Advances	86,935,385	74,794,726	12,140,659
LOANS OUTSTANDING			
To Agency for International Development, Net	79,680	81,328	(1,648)
To Other Federal Home Loan Banks	1,419,000	1,793,593	(374,593)
To FSLIC	900,000	500,000	400,000
Total Loans	2,398,680	2,374,921	23,759
ACCOUNTS RECEIVABLE	617,683	678,026	(60,343)
BANK PREMISES AND EQUIPMENT (NET)	46,373	35,566	10,807
DEFERRED CHARGES	181,835	113,978	67,857
Total Assets	104,099,559	93,566,842	10,532,717
LIABILITIES AND CAPITAL			
DEPOSITS AND BORROWINGS	20,173,962	16,758,632	3,415,330
ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	1,631,397	1,408,185	223,212
DEFERRED CREDIT	(1,098,750)	(594,203)	(504,547)
CONSOLIDATED OBLIGATIONS 1/	73,573,831	67,406,144	6,167,687
Total Liabilities	94,280,440	84,978,758	9,301,682
TOTAL CAPITAL STOCK	8,097,388	6,940,382	1,157,006
RETAINED EARNINGS			
Legal Reserve	1,357,168	1,146,975	210,193
Dividend Stabilization	189,931	176,977	12,954
Undividend Profits	174,632	323,750	(149,118)
Total Retained Earnings	1,721,731	1,647,702	74,029
Total Capital	9,819,119	8,588,084	1,231,035
Total Liabilities and Capital	104,099,559	93,566,842	10,532,717

1/ Consolidated Federal Home Loan Bank Obligations issued by the Federal Home Loan Bank Board and now outstanding are the joint and several obligations of all Federal Home Loan Banks. Includes short-term discount notes totaling $13,389,378,000 and $15,362,748,000 as of September 30, 1985 and September 30, 1984, respectively.

FEDERAL HOME LOAN BANKS
COMBINED STATEMENT OF INCOME AND EXPENSE
FOR THE 12 MONTHS ENDING SEPTEMBER 30, 1985 AND SEPTEMBER 30, 1984

(In Thousands)

	1985		1984	
	Amount	Percent	Amount	Percent
EARNED INCOME				
Interest on Advances...........	$8,542,708	80.4	7,012,261	80.7
Income From Investments........	1,578,934	14.9	1,227,593	14.1
Interest and Fees on AID Loans.	6,736	0.1	6,873	0.1
Income from Other Services.....	490,505	4.6	443,693	5.1
Total Income.................	10,618,883	100.0	8,690,420	100.0
EXPENSES				
INTEREST AND OTHER COSTS				
Interest and Concessions - Consolidated Obligations...	7,649,779	72.0	6,265,325	72.1
Assessments - Federal Home Loan Bank Board............	12,518	0.1	14,481	0.1
Assessments - Other..........	6,161	0.1	4,468	0.1
Interest on Deposits.........	1,468,760	13.8	1,292,850	14.9
Other Interest...............	234,042	2.2	192,862	2.2
Total Interest and Other Costs....................	9,371,260	88.2	7,769,986	89.4
OTHER OPERATING EXPENSES				
Salaries and Benefits..........	103,246	1.0	73,651	0.8
Fees and Professional Services.	6,613	0.1	7,752	0.1
Travel Expense.................	6,411	0.1	3,917	0.1
Telephone & Transmission Costs.	5,713	0.1	4,996	0.1
Stationary and Supplies........	13,742	0.1	11,834	0.1
Cost of Quarters (Net).........	14,558	0.1	11,464	0.1
Depreciation - Furniture and Equipment................	3,270	-	2,204	-
Equipment Rental and Expense...	16,730	0.2	13,422	0.2
Other..........................	26,361	0.2	14,507	0.2
Total Other Operating Expenses..................	196,644	1.9	143,747	1.7
TOTAL EXPENSES..............	9,567,904	90.1	7,913,733	91.1
NET INCOME......................	1,050,979	9.9	776,687	8.9

FEDERAL HOME LOAN BANKS
COMBINED STATEMENT OF INCOME AND DISPOSITION OF NET INCOME FROM BEGINNING OF OPERATIONS THROUGH SEPTEMBER 30, 1985
(In Thousands)

	Combined	
	Amount	Percent
INCOME	$68,647,011	100.0
CHARGES AGAINST INCOME	61,331,558	89.3
Net Income	7,315,453	10.7
DISPOSITION OF NET INCOME		
Retained Earnings as of September 30, 1985:		
Legal Reserve	1,357,168	18.6
Dividend Stabilization	189,931	2.6
Undivided Profits	174,632	2.4
Total Retained Earnings	1,721,731	23.6
Dividends Paid:		
U.S. Government	26,176	.3
Member Institutions	5,563,997	76.1
Total Dividends Paid	5,590,173	76.4
Transfer to Retirement Fund	3,530	0
Organizational Expense - Spokane Bank	19	0
TOTAL	$ 7,315,453	100.0

FHLBB RESPONSIBILITY FOR SUPERVISION OF FEDERAL HOME LOAN BANKS

The responsibilities of the Bank Board and its staff in supervising the Federal Home Loan Banks include:

1. Issuance of regulations and policy guidelines covering the operations of the Federal Home Loan Banks.
2. Appointment of public interest members of each FHLBank's Board of Directors and the conduct of the annual election of the industry members of each Bank's Board.
3. Review, analysis, and approval of the operating and capital expenditure budgets of each Bank.

The Office of District Banks has the general responsibility to provide the Bank Board with an overview of the management of each of the Banks. The Office has specific responsibility for the following functions:

1. Review and evaluation of FHLBank operations and performance, and formulation of policy statements and recommendations concerning Bank operations, budgets, and financial matters.
2. Evaluation of banking functions and member services provided by the Banks, including monitoring of the Banks' credit policies and lending programs as they relate to the availability of funds to members for housing credit, as well as evaluation of any new member services to be offered by the Banks. Member services currently offered by the FHLBanks include demand and time deposits, investment and safekeeping, economic forecasting, and the collection, processing and settlement of payment instruments.
3. Coordination of communications between the Banks and Bank Board offices on matters relating to the Banks, including keeping the Banks apprised of Board actions and policy changes, coordination of monthly Bank Presidents' conferences, coordination of joint Bank System projects and operation of facsimile communications between the Bank Board and the Banks.
4. Conducting the annual election of industry directors of the 12 FHLBanks and assisting the Bank Board in the appointment of public interest directors for the Banks.

EVALUATION AND PROCESSING OF INDUSTRY APPLICATIONS

OVERVIEW OF APPLICATIONS EVALUATION AND PROCESSING FUNCTION

As the operating head of the Federal Home Loan Bank Board and the Federal Savings and Loan Insurance Corporation ("FSLIC"), the Bank Board is responsible for chartering Federal savings and loan associations and Federal savings banks, and for granting deposit insurance to eligible institutions. In addition, the Board is responsible for acting on requests from institutions within its jurisdiction to engage in certain activities which, by statute or regulation, require the prior approval of the Bank Board. The Office of District Banks, in conjunction with the 12 Federal Home Loan Banks, is responsible for evaluation and processing of industry applications for Federal charters, deposit insurance, as well as other applications required of Federally chartered or FSLIC-insured institutions. An overview of the Board's major applications processing responsibilities follows.

Chartering Federal Savings and Loan Associations and Federal Savings Banks

Section 5(a) of the Home Owners' Loan Act of 1933 authorizes the Board to provide for the organization, incorporation, charter issuance, examination, operation and regulation of institutions to be known as Federal savings and loan associations and Federal savings banks.

These institutions provide thrift and home-mortgage lending services in communities throughout the United States. They are established by granting of charters to newly created associations and savings banks anywhere in the United States or its Territories. Existing state-chartered associations and savings banks also may apply and, if eligible, convert to a Federal charter.

The savings or share account of each saver in Federal savings and loan associations and Federal savings banks is insured up to $100,000 by the Federal Savings and Loan Insurance Corporation. These institutions are subject to periodic examination by the Federal Home Loan Bank Board and are members of the Federal Home Loan Bank System.

Insuring Savings and Loan Associations and Savings Banks

Federal deposit insurance protection is obligatory for all Federally chartered associations and savings banks. State-chartered savings and loans which apply for FSLIC insurance and meet the Corporation's requirements also are insured.

In the underwriting process, the Office of District Banks analyzes all factors bearing upon the financial condition and other aspects of applicant institutions. Included among these are: capital structure, assets, liabilities, reserve position, operating income and expense ratios, and liquidity position. Other considerations are character of management and directorate, and soundness of all policies and practices pursued in appraising and lending. All factors are evaluated in light of local economic conditions and the trends and prospects of the general economy.

Following is a more detailed description of the functions and responsibilities of the Office of District Banks relating to the processing and evaluation of industry applications.

Evaluation and Processing of Applications

As noted earlier, Federally-chartered savings and loan associations, savings banks and FSLIC-insured institutions are required by various statutes and Board regulations to obtain prior approval from the Board to engage in certain activities. The primary types of applications required of a Federally-chartered institution include requests to establish or relocate a branch office, to engage in trust or service corporation activities, or to change its home office location, charter or bylaws. The major types of applications required of an insured institution (including a Federally-chartered institution) include requests to merge with or acquire the assets of another institution, to sell or purchase branch offices, and to make certain types of investments. The Office of District Banks is responsible for overseeing and coordinating the processing of the majority of industry applications submitted to the Bank Board.1/

Under the Board's current system for processing applications, application decisions are made at three separate levels within the FHLBank System:

1) FHLBanks - The Board has delegated to each of the FHLBanks the authority to act on a number of applications that generally are routine in nature and do not raise unusual policy or legal issues.

2) Board Staff - Certain other types of applications may be approved by the Office of District Banks and/or another Board office pursuant to authority delegated to the offices by the Board.

3) Bank Board - Applications that may not be approved by the FHLBanks or Board staff require specific action by the Board.

FHLBB RESPONSIBILITY FOR APPLICATION EVALUATION AND PROCESSING

The responsibilities of the Bank Board and its staff relating to the evaluation and processing of industry applications include:

1. Issuance of regulations and policy guidelines which set forth the requirements and procedures for filing applications with the Board; and

2. Review and approval of applications submitted by the industry, in accordance with the requirements of applicable law, regulations and any conditions of approval that the Board may establish.

1/ The Office of District Banks does not process applications that are required for supervisory reasons (e.g., assisted mergers) or certain types of applications involving extensive legal review (e.g., conversions from mutual to stock institution).

FHLBB RESPONSIBILITY FOR APPLICATION EVALUATION AND PROCESSING (Continued)

The Office of District Banks' responsibility for oversight of the evaluation and processing of industry applications includes the following functions:

1. Research and development of recommendations for amendment of Board regulations, policies and procedures relating to industry application requirements, including development of proposals to streamline application review procedures and reduce restrictions on institutions.
2. Evaluation and formulation of recommendations for Board action on applications that require approval of the Board and making decisions to approve or deny applications in accordance with the Office's delegated authority.
3. Monitoring and review of application decisions made by the FHLBanks under delegated authority to ensure compliance with Bank Board regulations, policies and procedures.
4. Coordination of communications between the Banks and the Bank Board on application-related matters.

Workload and Personnel Requirements

As previously noted, the Office of District Banks has two primary functions: supervising the operations of the FHLBanks, and evaluation and processing of thrift institution applications. Approximately 45.5 percent of the Office's staff (15 positions) is involved in the Office's FHLBank supervision responsibilities, and approximately 54.5 percent of the staff (18 positions) is involved in the evaluation and processing of thrift applications. The Applications Analysis Section of the Office of District Banks was granted two temporary positions for a period of two years due to the recent significant increase in application volume.

Application Evaluation and Processing

Application evaluation and processing is comprised of two parts: (1) evaluation and processing of applications requiring Washington action, and (2) review ("post audit") of applications acted on by the FHLBanks under delegated authority.

The following chart provides a comparison of the number of applications within the jurisdiction of the Office of District Banks that were processed by the Board and the FHLBanks during FY 1984 and FY 1985:

*Bank Board Application Actions	FY 1984	FY 1985	FY 84 - 85 Percent Change
Organization of New Federal Association	35	85	+142.8%
Insurance of Accounts	59	181	+206.8%
Voluntary Mergers*	8	7	-12.5%
Federal Association Branches	1	1	0
Miscellaneous	221	226	+ 2.2%
Total	324	500	+54.3%

District Bank Actions			
Voluntary Mergers*	38	25	-34.2%
Federal Association Branches	193	149	-22.8%
Miscellaneous	1,762	1,284	-27.1%
Total	1,993	1,458	-26.8%

*Does not include supervisory or FSLIC-assisted mergers.

During FY 1985, the Office of District Banks saw a continuation in the increase in application volume that began in FY 1984. Due to the Garn St Germain Act and the liberalization of asset powers for state-chartered institutions, ODB experienced another significant increase in the number of applications for de novo Federal charters and for bank membership and insurance of accounts for state-chartered institutions. During FY 1985, 85 applications for de novo Federal charters were approved, an increase of 142.8% over the FY 1984 figure. In addition, 181 applications for FSLIC insurance of state-chartered institutions were approved, an increase of 206.8% over the FY 1984 figure. A significant number of the requests for FSLIC insurance were from operating institutions. The failure of the Ohio Guaranty Fund and the Maryland Savings Share Insurance Corporation during FY 1985 sparked an increased interest in Federal insurance for state-chartered institutions located not only in Maryland and Ohio, but in North Carolina as well. During FY 1985, FSLIC insurance was approved for 40 operating institutions in Maryland, 34 operating institutions in Ohio and 25 operating institutions in North Carolina.

As of October 29, 1985, there were 62 applications for FSLIC insurance and 34 applications for new Federal charters pending at the District Banks and in Washington. Thus, the high volume of activity seen in these two types of applications is expected to continue during FY 1986. Another area where increases in application volume is expected is the conversion of commercial banks with FDIC insurance to savings and loan institutions with FSLIC insurance.

The Applications Analysis Division of the Office of District Banks plans to spend a large portion of its time in FY 1986 in the development of new policies and procedures associated with the processing of applications at both the District Bank and Washington levels. In addition, the Applications Analysis Division plans to become active in formally distributing information to the Supervisory Agents at the 12 District Banks in the area of application processing. ODB hopes that by disseminating this information to the Supervisory Agents in a formalized manner, that questions regarding application processing will be minimized. The Applications Analysis Division plans to continue initiating new regulations and/or revising existing regulations dealing with the criteria to be considered when analyzing applications.

Supervision of FHLBank Operations

Supervision of FHLBank operations is not a measurable workload element. The Office's workload in this area will vary from time to time depending upon the number and complexity of issues under consideration by the Board that relate to the operation of the FHLBanks. We are not aware of any factors or special circumstances that may have a substantial impact on the Office's workload during FY 1986.

		1986			
	1985 Actual	Budget Estimate	Current Estimate	1987 Estimate	Increase or Decrease(-)
Full-Time Equivalent (FTE) Positions:					
Full-Time Permanent...	29	32	32	32	-0-
Other..................	1	-0-	-0-	-0-	-0-
Total FTE.............	30	32	32	32	-0-

EXECUTIVE DIRECTION AND STAFF SERVICES

Executive Direction

The Board establishes the policies for all operations. It supervises the operations of the 12 regional Federal Home Loan Banks and the examinations of each Bank at least annually.

It approves applications and issues charters for Federal savings and loan associations and Federal mutual savings banks and prescribes regulations relating to their lending and other activities.

Through the examination and supervision functions performed by the Federal Home Loan Banks, the Board is responsible for monitoring the financial condition of all member institutions insured by the Federal Savings and Loan Insurance Corporation. It is the final authority for the administration of the Insurance System, including approval or disapproval of applications for insurance and of requests from insured institutions to permit mergers, purchase of assets, consolidations, etc. It makes final determination of the course of action to be taken by the Insurance Corporation to prevent default in an insured institution as well as the method of settlement when an insured institution is declared insolvent.

Staff Services

Supporting functions including utilization of personnel, legal services, public relations, and internal and operational audits are provided to the Bank Board and to the Insurance Corporation. Such services are furnished by Communications, Congressional Relations, Minority Affairs, Office of the Inspector General, Personnel Management, Office of the Secretariat, Planning and Management Coordination, Office of Community Investment, Office of General Counsel, and the Office of Examinations and Supervision.

Other services furnished by the Bank Board's staff are fiscal and housekeeping services. These are treated and discussed in this submission as a separate activity under the caption "Administrative Services".

Following are more detailed descriptions of the functions and responsibilities of the Offices involved in this activity.

Offices of the Chairman and Board Members

The Federal Home Loan Bank Board, a bi-partisan Board of three members, was established as the successor agency to the Home Loan Bank Board, pursuant to the provisions of an Act cited as the "Housing Amendments of 1955" (69 Stat. 635). It supervises the Federal Home Loan Bank System, the System of Federal Savings and Loan Associations and Savings Banks, the Federal Savings and Loan Insurance Corporation (FSLIC), and the Federal Home Loan Mortgage Corporation.

Under the Reorganization Plan No. 6 of 1961, effective August 12, 1961, the Chairman is Chief Executive Officer of the Board. Subject to the general policies of the Board, he is responsible for the overall management, functioning, and organization of the Agency; the appointment, removal, and direction of personnel; and the preparation, review, presentation, and justification of budget estimates.

Some of the major duties and functions of the Board Members include the establishment of policies for all the Board operations. They supervise the operations of the twelve Federal Home Loan Banks, including the establishment of certain regulations for the guidance of the boards of directors and officers of such Banks. They are responsible for annual examinations of the twelve Banks.

The Board approves the issuance of charters for organization of Federal savings and loan associations and Federal mutual savings banks. It is responsible for their examination and supervision and prescribes certain regulations governing their lending and other activities.

In addition, it is responsible for examination and supervision of all Federal Savings and Loan Insurance Corporation (FSLIC) insured State-chartered institutions. It passes on and approves, where acceptable, all applications for insurance of accounts by the Federal Savings and Loan Insurance Corporation, and other applications related to the Insurance Corporation's activities.

The Emergency Home Finance Act of 1970 (Public Law 91-351) authorized the establishment of a Federal Home Loan Mortgage Corporation (FHLMC) which buys and sells mortgages, both conventional and guaranteed or insured. The three members of the Board constitute the Board of Directors of the Corporation.

Workload and Personnel Requirements

		1986			
	1985 Actual	Budget Estimate	Current Estimate	1987 Estimate	Increase or Decrease(-)
Full-Time Equivalent (FTE) Positions:					
Full-Time Permanent....	11	13	13	13	0
Other..................	5	2	2	2	0
Total FTE...........	16	15	15	15	0

COMMUNICATIONS OFFICE

Communications presents policies, announcements, and actions to: The public, Bank Board offices, the savings and loan industry, other Government agencies, and all media. Public understanding and trust in insured savings and loan associations is essential to the success of Bank Board operations. Industry and government support are important to the Board's goals, as is the support of the financial community.

The information is disseminated in various ways: Press releases; press conferences; answering correspondence and phone calls; speeches; interviews for radio, television, magazines (general, trade, and professional); newspapers; guest column contributions; other articles signed by the Chairman, Board Members or senior staff members; graphic support; audio visual presentation; and video tape production.

Existing Activities

1. Publication of the agency's annual report.

2. Issuance of monthly statistics on mortgage rates, interest cost, and savings flows; press releases; articles; columns; and interviews for radio and television.

3. Responding to queries from the media, public, industry, Government, academia, and other elements interested in the Bank Board, the Federal Savings and Loan Insurance Corporation, the Fiscal Agent, and the savings and loan industry.

4. Coordination of press/public relations for FSLIC cases, conservatorships and other crisis situations.

5. Publication of a daily and bi-monthly clipsheet (a digest of financial and housing news from the nation's press).

6. Coordination of public information service on Bank Board activities with the 12 Federal Home Loan Banks.

7. Preparation of graphics, video and audio-visual production and other programs and projects for the Board's personnel orientation, training, and development programs.

8. Scheduling and coordination in the use of the agency amphitheater.

Twelve of the Office of Communication's continuing objectives are the effective dissemination of communications and implementation of cost savings techniques in providing various types of information to the savings and loan industry, the public, the financial community and selected government agencies.

Workload and Personnel Requirements

The Communications Office continues to improve and refine the agency methods of information dissemination. During the last year, inquiries from the public and press have increased substantially due to the Federal Savings and Loan Insurance Corporation activities in the savings and loan industry. Several members of the staff have been cross-trained to assist in providing functions necessary to answer inquiries. The Office has also made extensive use of word processing machines, thus reducing cost and staff hours.

Activity	1985 Actual	1986 Estimate	1987 Estimate
Press Releases per month	20	20	20
Phone Inquiries per month	3200	3200	3200
Letters Per Day	30	30	30
Press Inquiries per day	50	50	50
Graphic art jobs per week	25	25	25
Audio-visual productions	20	20	20
Video taping sessions	155	170	170

		1986			
	1985 Actual	Budget Estimate	Current Estimate	1987 Estimate	Increase or Decrease (-)
Full-Time Equivalent (FTE) Positions:					
Full-Time Permanent	13	12	12	12	-0-
Other..........	2	-0-	-0-	-0-	-0-
Total FTE	15	12	12	12	-0-

CONGRESSIONAL RELATIONS OFFICE

The Board's Congressional Relations function is centered in the Chairman's Office. It assists and advises the Chairman in the development, coordination, and advancement of Board initiatives and general relations with the Congress. This Office is responsible for keeping abreast of and impacting legislative matters pertaining to the Federal Home Loan Bank Board, Federal Savings and Loan Insurance Corporation, and savings and loan industry in general, and for advising the Board on the status, prospects for enactment, and interpretation of legislation and other pertinent Congressional activities.

		1986			
	1985 Actual	Budget Estimate	Current Estimate	1987 Estimate	Increase or Decrease(-)
Full-Time Equivalent (FTE) Positions:					
Full-Time Permanent.	2	4	4	4	0
Other................	2	0	0	0	0
Total FTE..........	4	4	4	4	0

OFFICE OF ENFORCEMENT

The Office of Enforcement is responsible for assisting the Agency in securing compliance by insured institutions and their management, directorate and controlling persons with pertinent laws, regulations and safe and sound operating practices. This is accomplished by the use of temporary and final cease-and-desist orders, removal actions against wrongdoing or negligent officers and directors, various kinds of enforceable agreements, and conservatorships or receiverships in the most serious cases. Where these remedies are not imposed on an informal or consent basis, the Office of Enforcement prosecutes such matters in administrative enforcement proceedings. In order to determine if a situation warrants formal enforcement actions, the Office often conducts investigations into suspected violations or unsound practices by insured institutions, their officials, or persons doing business with such institutions.

The Office also serves as counsel to the Supervisory Agents at the twelve Federal Home Loan Banks and to the Office of Examinations and Supervision to review supervisory agreements and other proposed supervisory remedies, to assist with supervisory actions, and to advise whether situations warrant formal enforcement action. In addition, Enforcement attorneys prepare detailed criminal referral letters to the Justice Department when information developed during an investigation reveals evidence of the possible commission of crimes.

In performing its responsibilities, the Office of Enforcement also may bring injunctive actions in U.S. District Court. Three such cases were filed in FY 1985, which alleged violations of the Change in Savings and Loan Control Act. Enforcement attorneys also enforce outstanding cease-and-desist orders in the District Courts (two were enforced in FY 1985), as well as enforcing their investigative subpoenas when witnesses are not cooperative.

During Fiscal Year 1985, the Office completed 28 formal and 19 informal investigations, and obtained the issuance of 24 final cease-and-desist orders, four of which were preceded by temporary orders to cease and desist. Final orders of removal and/or prohibition were issued against 26 wrongdoing or negligent management officials and eight officials were suspended following their indictments for felonies. In addition, the Office had primary responsibility for the preparation of two requests for the appointment of federal conservators and one receivership appointment.

Also during Fiscal Year 1985, the Office of Enforcement completed 14 cases referred to it from the Corporate and Securities Division of OGC because of possible violations of the securities laws, which include the Securities Exchange Act of 1934 and its implementing regulations, the Change in Savings and Loan Control Act, the Savings and Loan Holding Company Act, and the Bank Board's own stock conversion regulations. Enforcement attorneys also worked closely with and advised the Supervisory Agents in connection with eight cases in which applications for changes in control of insured institutions were recommended for denial.

Workload:

Item	FY 85 Actual	FY 86 Estimated	FY 87 Estimated
Completed Investigations	47	60	70
C&D Orders	24	35	50
Removals and/or Prohibitions	26	35	40
Securities Referrals	14	25	35
Criminal Referral Letters	10	15	20
Change-in-Control Denials	8	15	25
U.S. District Court Actions	5	10	20

		1986			
	1985 Actual	Budget Estimate	Current Estimate	1987 Estimate	Increase or Decrease(-)
Full-Time Equivalent (FTE) Positions:					
Full-Time Permanent..	-0-	-0-	14	14	-0-
Other................	-0-	-0-	-0-	-0-	-0-
Total FTE..........	-0-	-0-	14	14	-0-

MINORITY AFFAIRS OFFICE

The Minority Affairs Office (MAO) was established to advise and counsel the Chairman and the Board on a broad range of policy matters relating to the development and the implementation of equal employment opportunity at the Federal Home Loan Bank Board. More specifically, it has the responsibility to:

1. Develop and implement policies which ensure equal employment opportunities for all persons without regard to their race, color, religion, sex, age, national origin, or physical or mental handicap.

2. Develop broad agency EEO policy, program objectives, procedures and guidelines, based on statute and on Office of Personnel Management (OPM) and Equal Employment Opportunity Commission (EEOC) guidelines, as well as assure that the policies and objectives are implemented throughout the agency.

3. Audit and evaluate all recruiting, hiring, training, compensation, working conditions, promotions, transfers, terminations and disciplinary actions, in addition to all other terms, conditions and privileges of employment as they relate to equal employment and affirmative action.

4. Direct and monitor the Federal Home Loan Bank Board's discrimination complaint system.

5. Collect, monitor and maintain employment statistics related to turnover hiring, terminations, promotions, transfers, adverse actions, temporary assignments, training and awards.

6. Develop and implement an Agencywide Federal Women's Program (FWP), Hispanic Employment Program (HEP), Historically Black Colleges Program (HBCP), Selective Employment Placement Program (SEP-Handicapped), and Disabled Veterans Affirmative Action Plan (DVAAP).

7. Assist the Federal Home Loan Bank Board in achieving minority, women, handicap and disabled veteran's hiring goals and timetables by identifying new minority, women, handicapped and disabled veteran's recruiting resources.

8. Establish contact with and participate in the activities of local, national and community-based organizations for the improvement of employability of women, minroities, handicapped and disabled veterans.

9. Act as primary Agency liaison with the Equal Employment Opportunity Commission (EEOC) and other Federal Civil Rights offices.

Workload and Personnel Requirements	FY '85 Actual	FY '86 Estimate	FY '87 Estimate
1. Complaint counseling (Informal)			
a. Total persons counseled	19	8	7
b. Total Reported in (a) which resulted in informal resolutions of complaints	11	5	4
c. Total informal resolutions involving relief for complainants	1	1	1
2. Complaint Processing (Formal)			
a. Total complaints in inventory at beginning of FY, Agency processing not completed	4	3	5
b. Total complaints received during FY	8	3	3
c. Total complaints in inventory at end of FY, Agency processing not completed*	3	3	3
d. Total investigations initiated	7	5	3
e. Total final Agency decisions rendered	3	6	3
f. Total appeals in inventory at beginning of FY*	1	2	2
g. Total decisions rendered during FY*	1	1	1
h. Total appeals in inventory at end of FY*	0	1	1

*Equal Employment Opportunity Commission (EEOC) and Merit System Protection Board (MSPB) only.

	FY '85 Actual	FY '86 Estimate	FY '87 Estimate
3. Routine Monitoring			
a. Affirmative Action - Statistical Data Reports That are Reviewed and Analyzed			
(1) Biweekly	6	6	6
(2) Monthly	6	6	6
(3) Quarterly	6	6	6
(4) Semi-Annually	6	6	6
(5) Annually	12	12	12
b. Complaint Processing			
(1) EEO Counselor monthly reports	144	60	60
(2) EEO counseling reports on formal complaints	8	3	3
(3) Investigative files	5	5	3
(4) Reports from monthly counselor meetings	12	12	12
c. Special Emphasis Programs			
(1) Federal Women's Program (FWP) Manager Progress Reports	1	4	4
(2) Minutes from monthly Federal Women's Program Committee Member Meetings	0	6	12
(3) Hispanic Employment Program (HEP) Manager Reports	1	4	4
(4) Selective Employment Placement Program (SEP - Handicapped)	2	4	4

	FY '85 Actual	FY '86 Estimate	FY '87 Estimate
(5) Disabled Veterans Affirmative Action Program (DVAAP) Coordinator Reports	1	4	4
d. Recruiting (Federal Equal Opportunity Recruitment Program - FEORP)			
(1) National Recruitment Program (NRP) Reports	14	25	25
(2) Recruitment Visits	13	25	25
(3) Other Recruitment Reports	8	8	8
(4) Reviews made of the Savings and Loan Examiner Applicant Register	4	0	0
(5) Merit Promotion Panels that MAO participated in	20	25	25
(6) EEO self-evaluations	0	12	12
4. Technical Assistance			
a. Briefings			
(1) Top Management	1	2	2
(2) Office Directors	1	1	1
(3) Other	1	1	1
b. EEO Training (Sessions)			
(1) Manager and Supervisors	0	5	1
(2) EEO Counselors	1	1	2
(3) Federal Women's Program Manager	0	2	1

	FY '85 Actual	FY '86 Estimate	FY '87 Estimate
(4) Federal Women's Program Committee Members	0	1	1
(5) Hispanic Employment Program Coordinator	0	2	1
(6) MAO Staff Training	4	6	8
5. Affirmative Action			
a. Multi-Year-Affirmative Action Plan (MYP) Reports	2	8	8
b. Selective Employment Placement Program Reports (SEP - Handicapped)	2	8	8
c. Disabled Veterans Affirmative Action Program (DVAAP) Reports	1	1	1
d. Recruitment Trip Reports	13	25	25
e. Solicitations sent to Historically Black Colleges and Universities	8	105	105

		1986			
	1985 Actual	Budget Estimate	Current Estimate	1987 Estimate	Increase or Decrease(-)
Full-Time Equivalent (FTE) Positions:					
Full-Time Permanent..	5	4	4	4	-0-
Other................	-0-	-0-	-0-	-0-	-0-
Total FTE..........	5	4	4	4	-0-

OFFICE OF INSPECTOR GENERAL

The Office of Inspector General provides the Chairman, Members of the Board and top management with independent professional audits and investigations of Federal Home Loan Bank Board and Federal Savings and Loan Insurance Corporation activities. When requested by the Board, the Office may also conduct internal audits and investigations for the Federal Home Loan Banks, the Office of Finance, and the Neighborhood Reinvestment Corporation. The Office's involvement in these activities is designed to promote economy, efficiency and effectiveness in operations and to detect fraud and abuse. In addition, the Office provides guidance to the audit committees and internal audit staffs of each of the twelve Federal Home Loan Banks, and coordinates the services of certified public accounting firms who perform the financial audits of these banks. Within the Office, the Division for Audits and the Division for Investigations share responsibility for accomplishing the Office's objectives.

Workload and Personnel Requirements

The Audit Division emphasizes detecting opportunities for improved operations, achieving greater economy and efficiency, and reducing the potential for waste and fraud at the Bank Board. All audits are performed in accordance with generally accepted governmental auditing standards as set forth in the publication, Standards for Audit of Governmental Organizations, Programs, Activities, and Functions published by the U.S. General Accounting Office. During fiscal year 1985, the Audit Division completed 19 audits of Bank Board functions and activities; coordinated the CPA firms' audits of all twelve Federal Home Loan Banks; and coordinated 11 different GAO audits which involved the Bank Board. It is estimated that for fiscal years 1986 and 1987 these workload statistics should remain relatively constant.

The Investigation Division performs investigations of the Agency's activities in conformance with Federal laws and, when appropriate, with rules of criminal procedures, legal opinions and advice of the Department of Justice. The Division provides agency employees with a central location where they may report suspected instances of waste, fraud and abuse. During fiscal year 1985 there were 19 investigations initiated and 16 investigations closed.

Item	1985 Actual	1986 Estimate	1987 Estimate
Audits conducted or coordinated	32	35	35
Investigations			
- Initiated	19	25	30
- Completed	16	20	25

Full-Time Equivalent (FTE) Positions:	1985 Actual	1986 Budget Estimate	1986 Current Estimate	1987 Estimate	Increase or Decrease(-)
Full-Time Permanent.	13	13	13	13	0
Other...............	0	0	0	0	0
Total FTE.....	13	13	13	13	0

PERSONNEL MANAGEMENT OFFICE

The Personnel Management Office (PMO) administers personnel policies, programs, and operations in order to ensure an adequate work force to carry out the mission and functions of the Bank Board.

PMO provides advisory services to managers and supervisors on all matters affecting Bank Board employees, including recruitment, staffing, classification, training, employee relations, and labor-management relations. It counsels employees on all matters affecting their terms and conditions of employment.

PMO coordinates executive staffing activities, including the Senior Executive Service, and provides staff support to the Executive Resources Board and Performance Review Board. It implements and monitors the Federal Equal Opportunity Recruitment Program.

PMO classifies all jobs in accordance with standards published by the Office of Personnel Management and provides technical review of organizational changes.

PMO processes all personnel actions and maintains employment records. It also coordinates health and insurance programs, the retirement program, the awards program, and other employee benefit programs. It provides professional counseling services to employees whose performance is affected by personal problems through an Employees Counseling Service Program.

PMO carries out labor-management responsibilities for the Bank Board, including negotiations of collective bargaining agreements and resolution of labor-management disputes. It also coordinates employee appeals to reviewing authorities outside the Bank Board (e.g. MSPB, EEOC).

PMO plans and develops agencywide policies and programs for performance appraisal, merit pay, merit promotion, employee conduct, training, and executive development. PMO also develops, implements, and evaluates specific plans to carry out programs mandated by the Civil Service Reform Act of 1978.

PMO also serves as a liaison with the Office of Personnel Management and other organizations relating to Federal personnel matters.

Workload and Personnel Requirements

A significant part of PMO staff time is devoted to activities which are not easily measured; i.e., advisory services to managers, supervisors, and employees about a full range of personnel matters. Other PMO activities can be quantified in real numbers (types of personnel actions processed) or in staff hours (types of personnel programs). The following breakdown represents PMO's estimates of its measurable activities.

Personnel Actions	Estimated Numbers		
	FY 85	FY 86	FY 87
Total Actions Processed	1800	650	650
Positions Filled	244	150	175
S&L Examiner Applications Rated	508	0	0
S&L Examiner Positions Filled	38	0	0
Career Promotions	275	100	100
Classification Actions	150	150	150
Awards Processed	764	800	800
Training Requests Processed	861	900	900

Employee/Labor Relations	Estimated Staff Hours		
	FY 85	FY 86	FY 87
Disciplinary Actions	1000	300	300
Grievances/Appeals/Unfair Labor Practices	600	400	400
Negotiations	700	300	300

Program Administration	Estimated Staff Hours		
	FY 85	FY 86	FY 87
Classification Maintenance	2200	2500	2500
Merit Pay	*	*	*
Performance Appraisal	*	*	*
SES	592	1200	1200
Training (including Executive and Management Development)	4450	4000	4000
Merit Promotion	1800	2480	2400
General Programs	2400	2600	2600
Performance Management	3900	5000	5000

* Beginning in FY 85, Merit Pay and Performance Appraisals are combined into Performance Management.

		1986			
	1985 Actual	Budget Estimate	Current Estimate	1987 Estimate	Increase or Decrease(-)
Full-Time Equivalent (FTE) Positions:					
Full-Time Permanent..	23	23	23	23	0
Other................	2	2	2	2	0
Total FTE.........	25	25	25	25	0

OFFICE OF THE SECRETARIAT, PLANNING, AND MANAGEMENT COORDINATION

This Office is responsible for receiving, processing, and maintaining records of all official matters that come before the Bank Board and for providing planning and inter-office coordination support services to the Office of the Chairman. Further, it is responsible for the official promulgation of Bank Board rules, regulations, and decisions, including those pertaining to the Federal Savings and Loan Insurance Corporation.

Specifically, the Office: Coordinates staff transmissions to the Board; schedules and arranges Board meetings; organizes the agenda; ensures that the Bank Board complies with the Government's provisions in the Sunshine Act; coordinates the release of information under the Freedom of Information Act and the Privacy Act; prepares minutes on each Board meeting; records decisions; maintains liaison on unfinished business; and acts as advisor to the Board on procedural matters. The Office also prepares, distributes, and records Federal savings and loan association charters, insurance and bank membership certificates, and certifications of appointments and elections of Directors of the Federal Home Loan Banks. In addition, the Office acts as custodian of the official records of the Bank Board, the former Home Owners' Loan Corporation, the former Federal Home Loan Bank Administration and its constituent agencies, and serves as liaison with the Office of the Federal Register.

The Agenda and Minutes Branch

The Agenda and Minutes Branch is responsible for assembling, processing, and preparing agenda items for Board meetings; receiving, preparing and processing all notational voting items to the Board; creating, storing, retrieving, and disseminating the Board minutes; and indexing Board actions. Further, it responds to staff, interagency, and public inquiries.

Activity	FY 1985 Actual	FY 1986 Estimate	FY 1987 Estimate
Number of Board Meetings Held............	53	60	65
Items Processed for Notational Voting....	685	735	785
Resolutions Adopted......................	1,135	1,160	1,210
Minute Entries Recorded..................	133	150	150
Chairman's Orders Issued.................	43	50	65
Charters Issued..........................	214	239	254
Certificates Issued......................	494	544	550
Items Prepared for Shipment to Federal Register........................	132	157	182
Proposed Regulations and Final Regulations Published in Federal Register........................	55	60	65
Correspondence Received and Processed for Chairman............................	337	447	547

The Assistant Secretary

The Assistant Secretary conducts the official Federal Home Loan Bank Board meetings and certifies all official documents in the absence of the Secretary. These functions may also be performed to assist the Secretary and to expedite the fulfillment of certain demands made upon the Secretariat. Official documents include, but are not limited to, Bank Board actions, Home Owners' Loan Corporation documents, and Federal Savings and Loan Insurance Corporation matters. The Assistant Secretary monitors all proposed and final Federal Home Loan Bank Board regulations, and responds to public and non-public inquiries concerning the comment period, effective date, contact persons, and other relevant information. Further, the Assistant Secretary monitors the final regulations to determine if any contain delegations of authority to Bank Presidents, Supervisory Agents, and Office Directors. Finally, summaries of delegations are prepared, maintained, and updated to assist in the processing of applications and other duties of the Bank Board and the Federal Home Loan Banks.

The Planning and Management Coordination Branch

The Planning and Management Coordination Branch assists the Board in effectively identifying and implementing agency priorities and goals, assuring the promotion of inter-office communications and cooperation, and designing appropriate management tools to ensure continuity as administrations change. This includes coordinating and conducting planning activities, developing and executing an Active Issues/Regulations Tracking System, and an executive calendar designing and implementing a process for efficiently scheduling regulations, coordinating and assisting in the development of management briefings, conducting supervisory briefings, and conducting meetings of the Federal Savings and Loan Advisory Council.

Key Operations (30% of Branch Workload)

This Branch produces a variety of reports for the Board's top management team and monitors and updates information on the status of key operations:

Active Issues Tracking System

This report provides the Chairman, Board Members and Office Directors with current information on the FHLBB's major inter-office policy and management issues. During FY 85, the Active Issues Report was updated 43 times. The Active Issues Report is updated on a weekly basis.

Executive Planning Calendar/Speech and Travel Calendar

These computerized calendars reflect all briefings, planning conferences and travel schedules of the Chairman and Board Members. The Executive Planning Calendar is updated weekly, and the Speech and Travel Calendar is updated monthly.

Planning Activities (10% of Branch Workload)

Another major function of this Branch is the responsibility of assisting the Chairman and Offices in the development, publication, and distribution of both long and short range goals and priorities as well as arranging for planning conferences attended by top management. This latter effort requires organizing an agenda; site and travel arrangements; documenting decisions; and coordinating follow-up activities.

Briefings (20% of Branch Workload)

This Branch organizes and coordinates briefing sessions and assists in developing the agenda and handouts for these briefings. During FY 85, 85 briefings were held. These briefings were conducted to provide an opportunity for the Board to review, on a regular basis, current developments and trends of cases and related policy issues.

Federal Savings and Loan Advisory Council (15% of Branch Workload)

This Council makes recommendations to the Board for the resolution of major issues facing the industry and works to encourage closer relations among member institutions, their District Banks, and the Board in Washington. This Branch assists the 24-member Council by preparing documentation and assigning staff for plenary and subcommittee meetings, coordinating work between Board offices and the Council, and assisting in issue development. The full Council meets 3 times a year for two days and holds agenda meetings which are attended by 6 to 8 Council members and selected staff two to three months prior to each Council meeting. Further, this Branch coordinates and develops all briefing materials for special Council task forces.

Management Studies and Evaluations (5% of Branch Workload)

One-time management studies and evaluations for the Executive Staff Director, while not routinely performed, are an important responsibility area. These studies require conducting interviews, analyzing data, developing alternatives and recommendations, and monitoring the implementation of recommendations adopted by the Executive Staff Director.

Other Functions (20% of Branch Workload)

These functions include implementation of management systems, involvement with industry planning groups, the coordinating of special task force meetings for policy offices, and internal office supervision, management, and administration.

In fiscal years 1986 and 1987, this Branch plans to maintain its current level of involvement in each of its major functional areas of responsibility with some exceptions. This Branch expects an increase in the amount of effort dedicated to task forces and key operations due to regulatory actions needed to implement legislation.

Information, Record Services and Micrographics Branch

The Information, Record Services and Micrographics Branch provides information to the public upon request, and maintains and services case files for service corporations, holding companies, and savings and loan associations. In addition to this maintenance and storage, the Branch is responsible for the loan, retrieval, microfilming, and general security of the files.

Information and Record Services Section

The Record Services Section and the Information Services Section are being combined due to a reorganization of the Branch. As a result of the reorganization, the Section is appropriately titled Information and Record Services Section. The Section responds to requests from various Bank Board staff members and the public for records and information regarding member savings and loan associations, holding companies and service corporations. Inquirers also request copies of legal opinions, Bank Board regulations and transcripts, and R and T Memos generated here at the Bank Board. The Section maintains and updates the case files and provides general security of the files, including maintaining the minutes of all Board meetings. The Section organizes records into the proper retention categories and indexes the material for microfilming. The Section is also responsible for the disposition of incoming calls through the agency's switchboard.

Microfilm Services Section

The Microfilm Services Section microfilms the Bank Board's official S&L case files, service corporation files, holding company files, agenda files, and provides microfilm services for other offices of the Bank Board upon request. The Section is responsible for procurement of micrographic supplies and maintenance of all the Bank Board's micrographics equipment.

Activity	FY 1985 Actual	FY 1986 Estimate	FY 1987 Estimate
S&L Applications Received, Classified, Indexed and Filed.......................	5,142	5,300	5,500
Correspondence Received and Handled.......	213,000	225,000	250,000
Requests for Information Responded To.....	5,065	7,000	9,000
Maintained and Serviced Stock Association Case Files..................	1,062	1,100	1,400
Maintained and Serviced Stock Reports for the Securities and Exchange Act of 1934.............................	4,000	4,000	4,100
Maintained and Serviced Active Holding Company Case Files......................	836	895	965
Maintained and Serviced Inactive Holding Company Case Files......................	88	103	120
Indexed Resolutions and Minute Entries....	2,124	2,200	2,500
Requests to Research Minutes Processed................................	39	50	60
Requests for Copies of Resolutions Processed..............................	1,111	1,300	1,400
Images Processed..........................	967,164	1,050,000	1,070,000
Number of New 4x6 Microfilm Jackets Made....................................	15,397	16,000	16,500
FOIA Requests Processed...................	2,189*	2,600	3,000

*Figures from January 1985 through September 1985.

		1986			
	1985 Actual	Budget Estimate	Current Estimate	1987 Estimate	Increase or Decrease(-)
Full-Time Equivalent (FTE) Positions:					
Full-Time Permanent.....	27	27	27	27	0
Other..................	1	0	0	0	0
Total FTE..........	28	27	27	27	0

OFFICE OF COMMUNITY INVESTMENT

The Office of Community Investment (OCI) advises the Federal Home Loan Bank Board and makes recommendations on policies and programs that help the thrift industry develop innovative methods for profitable financing of community revitalization projects. This effort is coordinated through a network of Community Investment Officers (CIOs) located in twelve Federal Home Loan Banks. OCI oversees the Bank Board's functions in the areas of customer affairs and civil rights. These efforts are coordinated through the Supervisory Agents and Civil Rights Specialists in the Federal Home Loan Banks.

OCI provides education, information and technical assistance on community investment issues and programs to CIOs, the industry, other agencies, state and local governments, and community and special interest organizations. It also assists other Bank Board offices in related activities, including developing recommendations on legislation and policy.

OCI makes presentations on major housing and community development issues; publishes documents; coordinates research efforts on lending opportunities such as pension funds, cooperative housing, service corporations, and issues associated with the secondary market; negotiates appropriate programmatic and regulatory changes with other agencies; assists in updating Bank Board regulations to allow increased community investment; and participates in the development of housing related policy.

OCI, with the assistance of the Office of Examinations and Supervision (OES), the Information Systems Division (ISD), and the Office of District Banks (ODB), coordinates the Home Mortgage Disclosure Act (HMDA) aggregation effort for the Bank Board. This task includes collecting over 3,500 reports, reviewing them, and sending them to the Federal Reserve Board (FRB) for processing. Copies are retained at the Bank Board and a second copy is sent to the central repository in each Standard Metropolitan Statistical Area (SMSA). This effort requires 80% of one staff member's time plus a stay-in-school clerk. In addition, OCI also participates in the development of demographic data bases for use by examiners and associations.

OCI continues to work with the twelve district banks and ODB on the development of new and extended Community Investment Fund (CIF) programs to meet the needs of their members.

OCI, since being assigned responsibility for the Bank Board's Minority Association Development Division, continues to act as liaison and provide technical assistance to minority-owned or managed associations, the Bank Board, other government agencies and the American League of Financial Institutions.

Another responsibility assumed by OCI has been in the area of international activities. This not only includes a contract with the United States Agency for International Development (USAID) to provide technical assistance to certain USAID projects, but also arranging meetings with groups from various foreign countries to provide expertise and advice in many areas of savings and loan activities. To date, OCI has assisted projects and met with delegations from Belgium, Canada, Costa Rica, Denmark, Egypt, Jamaica, India, Italy, Ivory Coast, Japan, Kenya, Korea, Ireland, Nigeria, Philippines, Sweden, Taiwan, Trinidad, Tobago, Turkey, and West Germany.

OCI also has responsibility for the Federal Home Loan Bank Board's functions regarding customer affairs and civil rights.

These responsibilities include the following:

- Recommending customer affairs and civil rights policy statements and regulations;
- Evaluating existing customer affairs and civil rights programs and procedures and recommending appropriate modifications;
- Providing input regarding customer affairs and civil rights to the examination process and the district Civil Rights Specialists;
- Tracking the Bank Board's implementation of customer affairs and civil rights laws, regulations and policies;
- Managing the Federal Home Loan Bank Board's consumer and civil rights complaint system;
- Conducting special studies that are responsive to Congressional requests and other interested parties concerning matters that are of importance to the welfare of the savings and loan industry and the customer, such as a study that was begun in fiscal 1984 to analyze problems relative to adjustable rate mortgages; and
- Reviewing the Supervisory Agents' customer and civil rights complaint handling and recommending modifications.

With the addition of the Division of Customer Affairs/Civil Rights, OCI has three primary missions:

1) It provides education, information and technical assistance on community investment issues and programs to CIOs, the industry, other government agencies, state and local governments and community interest organizations;

2) It assists other Federal Home Loan Bank Board offices in related activities which include developing recommendations on legislation and policy matters; and

3) It oversees the Federal Home Loan Bank Board's customer affairs/civil rights programs; records,tracks, and resolves complaints and violations as they occur; provides support and guidance to the twelve district banks; and makes recommendations to initiate and/or modify regulations and policies aimed at enhancing and expediting industry compliance with consumer affairs/civil rights laws.

Workload and Personnel Requirement

OCI's workload.falls into eight categories. In descending order of allocated time, they are: policy development and regulatory review; complaint handling; technical assistance; application review; administrative support and other related activities; training (including seminars, guidance and group support meetings); publications; and executive correspondence.

OCI's FY 1985 workload was as follows:

Policy Development and Regulatory Review	20%
Complaint Handling	35%
Technical Assistance	10%
Application Review	10%
Administrative Support	8%
Training	5%
Publications	2%
Executive Correspondence	10%

Workload

Item		FY 1985 Actual	FY 1986 Estimated	FY 1987 Estimated
No. of HMDA reports processed		3,700	4,100	4,100
No. of consumer complaints processed		8,500	10,000	10,000
No. of consumer complaint letters prepared in Washington		750	650	600
No. of telephone complaints		1,950	2,000	2,000
No. of regularly scheduled examinations in which institutions were reviewed for violations in nondiscrimination		2,174	2,000	2,000
No. and percent of institutions not in compliance with:				
Truth in Lending				
	Number	362	300	275
	Percent	16.7%	15%	13.8%
Equal Credit Opportunity				
	Number	94	85	80
	Percent	4.3%	4.3%	4%
Electronic Fund Transfer				
	Number	84	75	75
	Percent	3.9%	3.8%	3.8%
Restitution made for detected Regulation Z Violations				
No. of institutions		37	35	30
Total amount of restitution		$743,550	$450,000	$400,000
No. of Technical assistance and training efforts		210	230	250

	1985 Actual	1986 Budget Estimate	1986 Current Estimate	1987 Estimate	Increase or Decrease(-)
Full-Time Equivalent (FTE) Positions:					
Full-Time Permanent...	12	10	10	10	0
Other..................	0	1	1	1	0
Total FTE.........	12	11	11	11	0

OFFICE OF GENERAL COUNSEL

This Office is the central coordinating point within the Federal Home Loan Bank Board for all legal matters and is responsible for the representation of the Board, its members and the FSLIC in litigation in the courts and in the administrative proceedings involving all enforcement activities of the Board. The Office is directed by the General Counsel, and three Deputy General Counsels, who manage the operations of a total of six divisions.

The Special Counsel to the Federal Home Loan Banks acts as liaison between the General Counsel and the legal staffs of the Federal Home Loan Banks and advises the General Counsel on legal matters relating to the Banks and Bank System. The Special Counsel also represents the General Counsel at meetings involving the Banks and the Bank System and routinely provides legal advice and assistance to other units of the Board on Bank and Bank System matters.

Office of the Deputy General Counsel for Policy and Corporate Structure

The Deputy General Counsel for Policy and Corporate Structure is responsible for the management and supervision of the Regulations and Legislation Division and the Corporate and Securities Division.

Regulations and Legislation Division

The functions of the Regulations and Legislation Division ("R&L") can be divided into four broad categories: (1) legislative analysis, comment, and drafting; (2) regulation development and drafting; (3) opinion writing; and (4) resolution of insurance of accounts appeals. The first category includes such tasks as monitoring all legislation introduced in Congress, attending hearings on and analyzing bills of particular interest to the Bank Board, preparing written comments on bills of interest to the Bank Board or in response to particular Congressional requests, preparing testimony on pending legislation or other matters being investigated by Congress, and drafting legislative proposals to handle needs of the agency. The second category includes formulation of regulatory concepts and mechanisms to handle new developments in the thrift industry and corresponding objectives of the agency, as well as the drafting of specific regulations, policy statements, and Bank Board Rulings. The third category includes research and drafting of legal opinions interpreting the governing statutes and the regulations of the agency in response to inquiries from the public, Congress, and the agency staff. This last category also includes responding to numerous daily telephone inquiries. The fourth category includes review and drafting of opinions concerning the Board's new procedure for administrative appeals in cases where the FSLIC, as receiver, has made an initial determination that all or a part of an accountholder's funds are not covered by FSLIC insurance.

The Division was formed in February, 1984. Since that time, in the regulatory area, the Division has provided approximately 800 letters, memoranda, legal opinions and position papers including routine correspondence, comment acknowledgement, transmittal of insurance information and detailed legal policy analyses of current issues. In addition, the Division drafted proposed and final regulations implementing technical changes to the new powers for federally chartered associations contained in the Garn-St Germain Depository Institutions Act of 1982, providing for revised standards for net worth and direct equity investment by insured institutions, revision of the rules regarding insurance of accounts, classification of assets, authorization for finance subsidiaries, authorization for use of earnings-based deposit accounts, insurance of brokered deposits, standards for enforcement of prepayment penalities in conjunction with the exercise of due-on-sale clauses, and rules regarding appeals for reconsideration of decisions finding certain deposits uninsured. The Division also has the responsibility for briefing the Board on these and related issues.

On the legislative side, since February, 1984, the Division had primary responsibility for drafting a comprehensive thrift restructuring proposal in both the 98th (H.R. 5739, S.2700) and 99th Congresses (H.R. 1680, S.759, H.R. 2444, S.1167). In addition, the Division prepared numerous analyses and testimonies analyzing a wide range of current issues such as brokered funds use by insured depositories, and numerous financial reform bills considered during the 98th Congress and 99th Congresses. Since January 1985, the Division has prepared over twenty testimonies and numerous responses to inquiries for related material to be included in the hearing records.

The overall regulatory and legislative workload of the Division in fiscal 1986-1987 years is expected to remain at a high level to carry out the projected close monitoring of capital assistance, new FSLIC authority, and thrift restructuring; and to focus on broad concerns in the areas of financial services restructuring, regulatory reform, housing, and Glass-Steagall Act revision. This should result, in particular, in more testimony. There will be, especially in fiscal year 1986, an increased volume in general legal research and analysis as a result of continuing interpretative and regulation-writing demands generated by P.L. 97-320, state deregulation, and the many new rules adopted by the Board in 1985 to address issues involving direct investment, net worth requirements, and other issues of industry safety and soundness. In addition, the Division will continue to handle drafting and consultation with the OFSLIC of insurance appeal requests, which total over 60 filed for the period from the time the insurance appeals regulation was adopted in October, 1984, to date.

Workload	FY 85 Actual	FY 86 Estimate	FY 87 Estimate
Comment letters and legislative analysis:	59	75	75
Legislative drafting and testimony preparation:	27	35	35
Opinions (including insurance appeals):	368	450	450
Issues papers:	90	100	100
Regulations*:	90	100	100
Telephone inquiries:	34,000	40,000	40,000

*Reflects regulatory sections revised, deleted, or added.

Corporate and Securities Division

The Corporate and Securities Division reviews and processes applications for conversions of savings and loan associations from the mutual to the stock form of organization; administers and coordinates enforcement of the Securities and Exchange Act of 1934 with respect to securities of FSLIC-insured institutions; provides written opinions on the legal aspects of mergers, holding company applications and change in control notices; and coordinates certain holding company applications with the Department of Justice on antitrust/anticompetitive matters. The Division also reviews and provides in-depth legal analyses of legal issues raised in other types of applications, including permission to organize Federal associations, branch offices, savings banks, charter conversions, issuance of subordinated debentures, service corporations, Federal Home Loan Bank Board membership and insurance of accounts. Additionally, the staff advises other Board offices, the Federal Home Loan Banks, insured institutions and their counsel, and the general public on the above-mentioned subjects. The Division also drafts regulations concerning mutual-to-stock conversions, acquisitions and changes of control of insured institutions, equity and debt securities of stock and mutual savings and loan institutions and other areas pertaining to the Board's policies relative to acquisitions, corporate structure, financing, conversions and securities matters affecting FSLIC-insured institutions.

In Fiscal Year 1985, the Board approved 42 mutual-to-stock conversion applications, plus 10 voluntary supervisory conversions, two modified conversions and three holding company conversions, for a total of 67 conversion approvals. The Division anticipates processing for approval more than 100 conversion applications in fiscal year 1986, depending on national economic conditions. These approvals will include not only more "standard" type conversions, but conversions of increasing complexity, and those involving an increasing variety of supervisory transactions.

From October 1984 to September 1985, the Division participated directly in advising the FSLIC on a wide range of complicated issues in conjunction with major FSLIC assistance cases to restructure the industry. In addition, despite the fact that most routine applications are delegated to the field and only novel legal issues are referred to Washington, the Division prepared legal opinions analyzing approximately 81 holding company applications, 39 service corporation applications, 61 subordinated debt applications, 12 supervisory mergers, 52 insurance of accounts and bank membership applications, 85 charter and bylaw amendments, 74 other corporate applications, and 28 Federal Register documents, among various other letters and memoranda.

The Division also is responsible for administering and enforcing the Securities Exchange Act of 1934 ("Exchange Act") as it relates to the registration, periodic reporting, proxy solicitation, tender offers for and the stock ownership of stock savings and loan institutions required to register with the Board under the Exchange Act. During fiscal year 1985, there were 331 stock savings and loan institutions registered with the Board. During the past fiscal year the Divisions processed approximately 5,295 filings made with it under the Exchange Act, including over 63 registration statements of new publicly-owned institutions. It is anticipated that in fiscal year 1986, approximately 100 to 125 new registration statements will be filed with the Division. The filings required by the Exchange Act are the primary means by which the Division monitors converted institutions. These filings also provide the current information needed for development of markets for stock of converted chartered institutions. Registration under the Exchange Act requires regular filings which are reviewed by the staff. As part of these reviews, the staff also reviews the Examination Reports prepared by OES.

The Division also monitors transactions in conversion stock which often require the staff to become involved in Change-In-Control Act, Holding Company Act, and tender offer issues. Once an institution has converted, certain major corporate transactions undertaken by the institution require shareholder approvals and therefore also require the staff to review complex proxy statements. In addition, proposed corporate transactions also must be scrutinized in light of any post-conversion restrictions to which the institution is subject and will often require the preparation of waivers of post-conversion restrictions on share ownership and transactions. The Division reviews and processes charter and bylaw amendments which are frequently required by these transactions.

This Division also drafts proposed and final Board regulations concerning mutual-to-stock conversions, acquisitions and changes of control of insured institutions, and other areas relating to the corporate structure and finance of savings and loan institutions. In fiscal year 1985, several major regulations were proposed or finalized on such subjects as acquisitions of control of insured institutions, merger delegations, conversion proxy solicitations, modified conversions, bank-to-thrift conversions, corporate governance, securities offering disclosure, and branching rules.

Finally, the Division also participated in numerous special projects in fiscal year 1985 including preparation of major portions of legislation for consideration in Congress regarding holding companies and changes in control, materials submitted on behalf of the Board in connection with the Bush Task Force on Reform of Financial Institutions, an in-depth analysis of the applications processed and recommendations of further delegations to the various Federal Home Loan Banks, a study regarding the possible devolution of the stock of the Federal Home Loan Mortgage Corporation, a study on post receivership procedures with respect to collateralized obligations, and the organization of the "406 Corporation" to serve as a vehicle for orderly liquidation of assets held by FSLIC receivership.

Workload

Item	FY 85 Actual	FY 86 Estimate	FY 86 Estimate
Mutual to Stock Conversions	67	125	150
1934 Act Filings	12,500	15,400	16,500
Other Industry Applications	250	300	350
Letters	1,750	850	900
Internal Memoranda and Regulations	310	400	450

Office of the Deputy General Counsel for Operations and Administration

The Deputy General Counsel for Operations and Administration is responsible for the management and supervision for the Litigation Division and the Administration Division.

Litigation Division

The Litigation Division represents the Board and the FSLIC in federal and state courts throughout the nation. Attorneys for the Division supervise fee counsel in affirmative actions on behalf of the FSLIC seeking recovery from directors, officers and accountants of failed thrifts and others that have caused losses to the FSLIC. Such suits and criminal referrals are also designed to deter the increasing problem of fraud and gross negligence by the management of failing thrifts. The Division defends the Board and the FSLIC in a wide variety of suits, including actions challenging the validity of Board regulations, Board appointments of receivers and conservators for failed institutions and actions of such conservators or receivers regarding the disposition of assets of the failed institutions, and supervises fee counsel in defending such suits. The Division provides advice and counsel to other offices of the Board concerning the legal implications of prospective actions or decisions and interpretations of existing statutes and regulations, and represents the Board and the FSLIC in numerous subpoenas and document production demands. The Division presents the views of the Board through legal opinions on federal preemption topics and amicus curiae briefs on issues critical to the thrift industry. The Division also represents the Board members in their official capacity and provides legal assistance to the district banks.

Workload

Item	FY 85 Actual	FY 86 Estimate	FY 87 Estimate
U.S. District court suits (defensive)	104	115	125
U.S. District court suits (affirmative)	70	90	110
U.S. Court of Appeals	8	20	25
Non-party subpoenas and other document requests	17	20	20
State court actions	258	180	150
Supreme Court	2	1	2
Bankruptcy (cases)	116	130	120
Bankruptcy (Adversary proceedings)	19	40	50

The substantial increases in the actual totals for FY '85 over FY '84 represents both heavy increases in the litigation activities of receiverships and conservatorships as well as a more complete method for tabulating pending cases.

Administration Division

This Division has responsibility for legal review of all contractural matters for the Bank Board and the FSLIC in its corporate capacity and the major (high value) FSLIC Receivership contracts and leasing issues regarding the Bank Board building, EEO complaints, and adverse action hearings, personnel policy matters, procurement policy, employee conflicts of interest, compliance with the Freedom of Information and Sunshine Acts, labor issues for the Bank Board, tort claims made against the Board, as well as other administrative matters relating to the Bank Board.

During 1985, the Division provided substantial advice in numerous personnel related matters, including eight MSPB appeals, and two MSPB hearings. Negotiations with seven unions were conducted in connection with RIF of the District examiners. All legal advice and drafting with respect to transfer of the examination function was provided by this Division. Six tort claims were considered. The Division provided contract and leasing counselling for existing matters and procurement assistance for grants, leases and contracts.

The workload for the Division is anticipated to increase as managers become aware legal advice is readily available.

Workload:

Item	FY 85 Actual	FY 86 Estimated	FY 87 Estimated
FOIA Appeals	28	30	30
Procurement Review	284	450	450
Leases	39	13	13
Administrative Hearings	5	8	5
Labor Issues	9	9	3

Office of the Deputy General Counsel for FSLIC

The Deputy General Counsel is responsible for management and supervision of two FSLIC Divisions, each of which is headed by an Associate General Counsel.

Federal Savings & Loan Insurance Corporation Divisions

During fiscal year 1985, these Divisions provided advice and documentation for FSLIC actions concerning 48 failing institutions.[1] These actions included 12 liquidating receiverships accompanied by the payment of insurance through a transfer of insured accounts to other insured institutions and 2 liquidating receiverships accompanied by a cash payment of insured accounts. The Divisions[1] negotiated and drafted documentation for traditional FSLIC "assisted" transactions to prevent 16 institutions from failing. Additionally, the staff of the Divisions drafted documentation for placing 16 institutions in the FSLIC's Management Consignment Program ("MCP"), transactions which usually involve FSLIC financial assistance.[2] In fiscal year 1985, the Divisions advised FSLIC concerning the administration of existing assistance agreements (122 as of the close of the fiscal year) and the administration of assets acquired by the FSLIC in its corporate capacity or administered by the FSLIC as receiver. Thirty receivers and 1 conservator were appointed in fiscal year 1985, and 2 conservatorships were terminated. The Divisions prepared various opinions on FSLIC questions and drafted regulations concerning matters closely related to the activities of the FSLIC Divisions: the assessment of additional premiums for losses and expenses for the second, third and fourth quarters of Fiscal Year 1985, and a proposal to amend 12 C.F.R. Section 563.15, the regulation on insurance premiums.

The estimated workload for fiscal years 1986 and 1987 includes negotiating and drafting documents for the cases projected to require FSLIC action in 1986 and 1987. The FSLIC Divisions expect the steady increase in the workload caused by legal issues arising from the administration of the growing number of assistance agreements and of assets acquired by the FSLIC or administered by the FSLIC as receiver to continue.

Workload

Item	FY 85 Actual	FY 86 Estimate	FY 87 Estimate
Failing Institutions Cases	48	100	100
Assisted Acquisitions	16	30	65
Liquidating Payouts	14	20	20
Interim Solutions	16	30	15

1/ The Division Directors supervised outside counsel in the preparation of documentation for 22 of these cases.
2/ Institutions that have been placed in the Management Consignment Program are still problem cases for the FSLIC, and the staff of the FSLIC Division will negotiate and draft documentation for the transactions which will resolve these cases in fiscal year 1986.
3/ The problem cases for which interim solutions were arrived at in the fiscal year 1985 will be counted again in fiscal year 1986; and interim solutions for FY 86 will be counted again in FY 87.

Full-Time Equivalent (FTE) Positions:	1985 Actual	1986 Budget Estimate	1986 Current Estimate	1987 Estimate	Increase or Decrease(-)
Full-Time Permanent..	84	83	96	125	29
Other................	5	6	6	6	-0-
Total FTE..........	89	89	102	131	29

Office of Examinations and Supervision
Washington Office

The primary role of the Office of Examinations and Supervision (OES) is one of providing advice and support to the Board and the District Banks in policy formulation and the conduct of examinations, supervision and application processing in accordance with national standards. OES is also charged with the responsibility of assuring that the District Banks follow Bank Board policy in these areas.

Responsibility for supervision and examinations is consolidated on a geographical basis under four Assistant Directors for Regional Operations who report to the Deputy Director for Field Operations. Each Assistant Director has responsibility for coordinating examination and supervisory functions in three Bank districts. Washington staff in Regional Operations review reports of examinations, computer-based financial data and other information to determine those associations requiring corrective supervisory attention, in conjunction with Supervisory Agents in the twelve Federal Home Loan Banks and with counterpart state regulatory authorities in the case of state-chartered institutions. The staff monitors and suggests actions taken by Supervisory Agents to improve associations' policies, practices and financial condition. The Regional Operations staff also review certain applications submitted to the Board in conjunction with review by other Board offices.

The Deputy Director-Policy is responsible for developing regulatory programmatic policy guidance for OES and Bank System examining and supervisory staffs. He also works closely with the Director of OES in the formulation of Board policy.

The Deputy Director-Field Support and Systems is responsible for operational guidelines defining the examination and supervisory processes, budget, reporting systems, administrative services and OES's accounting section, which provides accounting advice and guidance on auditing matters to the OES and FHLB examination staffs as well as to other Board offices, all constituents of the Bank System, and to public accountants.

Workload Requirements

Item	FY 85 Actual	FY 86 Estimated	FY 87 Estimated
- Problem Cases Monitored (average number throughout year)	446	600	800
- Examinations Reviewed and Closed	699	1200	2150
- Conversion Applications, Offering Circulars, Amendments, 10-K's, 10-Q's, and Merger Proxies Reviewed	2266	3700	5750
- Accounting Policy and Application Issues Assessed	1400	2900	4300
- Industry Applications Processed	193	275	450

	1985 Actual	1986 Budget Estimate	1986 Current Estimate	1987 Estimate	Increase or Decrease(-)
Full-Time Equivalent (FTE) Positions:					
Full-Time Permanent..	58	50	113	113	-0-
Other................	2	-0-	-0-	-0-	-0-
Total FTE..........	60	50	113	113	-0-

OFFICE OF POLICY AND ECONOMIC RESEARCH

This office is responsible for policy and economic analyses in the areas of general economic developments, capital and mortgage markets, housing, the savings and loan industry and competing financial intermediaries, and matters relating to legislation, regulation, and policies of the Bank Board.

Specific functions include:

1. The development and maintenance of a program in basic and applied research designed to increase understanding of the savings and loan industry and of the savings, mortgage and financial markets in which it operates.

2. The development and maintenance of a statistical program designed to provide current information to the Bank Board and to make it possible to perform both current and basic research.

3. Preparation of economic analyses and critiques of ongoing and proposed Bank Board policies, regulations, and legislation for Bank Board use. The Office collaborates with other offices through intra-office committees and other means in designing and formulating new policies, regulations, and legislation.

4. The development and maintenance of an econometric modeling and forecasting capacity that will provide the Board analyses of the impact on both the savings and loan industry as a whole and individual institutions of changes in economic and financial conditions.

5. Monitoring general economic and financial developments so as to provide the Bank Board with the adequate updated knowledge of the economic environment necessary for the formulation and execution of policy. This includes the preparation of general economic reports basically concerned with the housing, savings, and mortgage markets.

6. Maintenance of working relationships, both informally and through interagency committees, with the Treasury Department, Council of Economic Advisors, Federal Reserve System, Office of Management and Budget, and the Department of Housing and Urban Development; activities with the Federal Home Loan Banks on research and policy projects; and liaison with universities and other public and private organizations.

7. Responsibilities for publications arising out of the Office's work and analyses. These include a chapter in the Annual Report of the Bank Board, articles published as working papers or current development reports, and a variety of statistical reports.

8. Providing research support and advice to other Bank Board offices. This includes providing technical assistance for the development of both internal and contracted research.

9. Designing and monitoring outside contracts for research projects on topics concerning the Bank Board and the savings and loan industry.

Workload and Personnel Requirements

The research and policy activities of the Office of Policy and Economic Research encompass a wide range of economic, financial, regulatory and policy areas. Deregulation and changes in the functioning of financial markets in recent years have produced wide interest rate fluctuations, rapid change in the institutional structure of the financial markets, and the restructuring and consolidation of the thrift industry. This has substantially increased the need for the analytical expertise of the Office of Policy and Economic Research and further increases are anticipated as a result of the increasingly complex environment in which thrifts must operate. Not only has the number of policy issues requiring analyses risen, but the complexity of the issues analyzed has increased, so considerable more staff time is required for each analysis. Moreover, during fiscal 1984, the Bank Board began requiring detailed financial reports from thrifts quarterly rather than semiannually, so as to permit more timely monitoring of thrift behavior, both for individual firms and in the aggregate. This has required more staff time to verify the data collected and to analyze this information so to provide an appropriate empirical basis for policy analysis and determination.

Item	Fiscal Year		
	1985 Actual	1986 Estimated	1987 Estimated
Number of statistical reports prepared	262	290	290
Number of policy issues assessed	250	275	275
Staff-years spent on econometric modeling	4	1-1/2	1-1/2
Number of reports prepared on current economic developments	30	30	30
Number of small academic research grants monitored	4	5	5
Number of working papers published	11	10	10
Number of FOIA requests fulfilled	2,400	2,500	2,500

		1986			
	1985 Actual	Budget Estimate	Current Estimate	1987 Estimate	Increase or Decrease(-)
Full-Time Equivalent (FTE) Positions:					
Full-Time Permanent..	29	28	33	33	0
Other................	2	5	5	5	0
Total FTE..........	31	33	38	38	0

ADMINISTRATIVE SERVICES

ADMINISTRATION OFFICE

The Director of Administration has direct responsibility for the administration, coordination, and management of the following five operating units which provide service to all offices of the Federal Home Loan Bank Board and the Federal Savings and Loan Insurance Corporation: (1) Administrative Services Division; (2) Controller's Division; (3) Budget Division; (4) Information Systems Division; and (5) Management Analysis Staff. The Director, on behalf of the Chairman, also has management responsibility for the activities of the Small and Disadvantaged Business Utilization Office and commercial leasing activities.

Personnel Requirements

		1986			
	1985 Actual	Budget Estimate	Current Estimate	1987 Estimate	Increase or Decrease(-)
Full-Time Equivalent (FTE) Positions:					
Full-Time Permanent.	4	5	5	5	-0-
Other...............	1	-0-	-0-	-0-	-0-
Total..........	5	5	5	5	-0-

Information Systems Division

ISD provides a wide variety of data processing services to the Bank Board, its staff, the savings and loan industry, the financial community, selected government agencies and the public. Services include collection, correction and analysis of savings and loan financial data, processing of the administrative data of the Bank Board and the FSLIC, and assistance in the performance of special studies based on data maintained on the computer systems of the Bank Board.

Two of its continuing objectives are the implementation of cost effective administrative and financial systems for efficient Bank Board resource management, and comprehensive savings and loan survey systems with rapid data availability to support the Bank Board's efforts to promote the growth and economic viability of the savings and loan industry. Realization of these objectives provides management and operational areas with the information to evaluate, plan for and control:

1. Personnel requirements to carry out the agency mission.
2. The Federal Home Loan Banks' status and performance.
3. Insured member association financial operations.
4. The housing market served by the Federal Home Loan Bank System.
5. External factors affecting the agency mission and operations.

To insure that the objectives are fully supported by the Information Systems Division, the following ongoing activities will be conducted:

1. Support the practical application of advanced computer techniques.
2. Improve the timeliness and quality of services and existing systems.
3. Continue the development of systems to increase the effectiveness of internal agency administration.
4. Insure that response to unscheduled requests for ADP services meet user needs in a timely manner.
5. Provide effective internal management and administration of the Division.

Workload and Personnel Requirements

During FY 1985, ISD provided support for maintenance and modification of over 70 recurring systems resulting from over 120 individual requests from users of ISD services. Approximately 75% of ISD's resources were required to meet these requests. In addition, ISD developed and implemented three new information systems and responded to over 20 ad hoc requests for data analysis which required reports to be produced in a very short time frame. This activity absorbed approximately 25% of ISD's resources.

Focus on the viability of the savings and loan industry continues to increase the use of new automated systems to monitor the activities of the industry. In addition, the Bank Board is continuing its effort to improve internal operations through the use of new automated methods in the administrative area. Automated systems already scheduled for implementation in FY 1986 include:

1. Securities Filings

The Securities and Exchange Act of 1934 requires stockholder-owned savings institutions to file certain documents based on activity of the institutions. The Federal Home Loan Bank Board, based on delegated authority from the Securities and Exchange Commission (SEC), has the oversight responsibility to insure that the required reports are properly filled out and reported in a timely manner. An automated system has been developed to assist the Office of General Counsel in fulfilling its reponsibilities in monitoring the receipt of the required reports. The system is intended to track the status of report completion, the status of internal processing and the status of reports availability for public review. The system will be installed in the fourth quarter of calendar year 1985.

2. Host Agency Processing

During 1984, the Office of Management and Budget (OMB) approved the Bank Board as an agency to perform accounting and payroll processing for other Federal agencies. During 1985, the National Capital Planning Commission (NCPC) was converted to use the Bank Board general accounting system. Parallel testing of NCPC operations has continued through the end of fiscal year 1985, and their processing will begin on a production basis beginning October 1, 1985 for fiscal year 1986. Subsequent to the conversion of NCPC, the Bank Board has been chosen by the Federal Maritime Commission to perform general accounting processing and payroll/personnel processing. It is expected that Maritime will be converted to the Bank Board system during the second quarter of calendar year 1986.

3. Time Administration Processing System (TAPS)

The TAPS is a cost accounting system used to record and analyze the time associated with the conduct of examinations of institutions which are members of the Federal Home Loan Bank System. The original System operated effectively but has a number of technical deficiencies. The System has been converted to run on the mainframe computers of the Bank Board and is to be used by the various examination offices throughout the country. The initial installation involving three District Banks is scheduled for the beginning of FY 1986. The other Banks will be brought into the system shortly thereafter.

		1986			
	1985 Actual	Budget Estimate	Current Estimate	1987 Estimate	Increase or Decrease(-)
Full-Time Equivalent (FTE) Positions:					
Full-Time Permanent..	50	57	57	57	-0-
Other................	1	-0-	-0-	-0-	-0-
Total FTE..........	51	57	57	57	-0-

Controller's Division

The Controller's Division plans, develops and executes the travel, financial and fiscal policies of the Bank Board and the Federal Savings and Loan Insurance Corporation (FSLIC). The Division consists of six branches: Travel Reimbursement, Travel Services, Financial Operations, Corporate Accounting, EDP Systems, and Payroll Accounting.

The Travel Reimbursement Branch is responsible for verifying, auditing, and/or approving all travel vouchers and travel advances, providing assistance to all employees relocating to new duty stations, and paying all transportation bills. The Travel Services Branch issues airline tickets through a computerized airline reservation system; makes hotel and car rental reservations; issues cash travel advances to a limited extent through an imprest fund; issues credit cards to travelers; and issues travelers checks in lieu of cash travel advances which are charged to their credit cards.

The Financial Operations, Corporate Accounting and EDP System branches are responsible for planning, developing and maintaining the Bank Board and the FSLIC accounting systems used to reflect the results of all financial transactions. The functions include:

1. Receiving and recording all receipts consisting primarily of general assessments, insurance premiums, receipts from asset disposal, Freedom of Information billings and rental income;
2. Maintaining all required accounting records. These involve expense ledgers, general ledgers, investment ledgers and cash receipts and inventory purchase journals;
3. Preparing financial reports for internal management services and for other Federal agencies; and
4. Analyzing and recommending assessments to be made on the Federal Home Loan Banks and on the Federal Savings and Loan Insurance Corporation.

The Payroll Accounting Branch is responsible for the payroll and related accounting functions of the Bank Board and the FSLIC. The responsibilities include preparing the agency payroll, earnings and leave reports, and providing all payroll accounting entries for the Bank Board and the FSLIC's financial reports.

Workload and Personnel Requirements

The Division continues its long range programs to improve and further automate and integrate the Bank Board's and FSLIC's Financial Reporting Systems. The new automated accounting system implemented on October 1, 1983 meets all GAO Accounting System requirements for accounting and financial control of funds. During FY 1985 the Division took on all of the accounting operations, except payroll, for the National Capital Planning Commission. In FY 1986 the Division intends to add all of the accounting services of the Federal Maritime Commission.

Work continues in developing productivity incentives and measurements. The effort focuses on selected division activities, such as timely payment of all invoices (within 30 days of invoice receipt); reimbursement of 95% of all travel claims within 30 days from the time the traveler signs the claim; and processing of payroll activities within 10-14 calendar days from receipt of the personnel action.

Goals and measurements are tied into an employee's performance evaluation. As a result, the Division has been able to handle increased workload responsibilities without increasing its staff requirements. Some typical Division Workload Statistics include the following:

Quantifiable Workload Factors	FY 1985 Actual	FY 1986 Estimated*	FY 1987 Estimated*
No. of Travel Expense Vouchers:	10,871	2,600	2,800
No. of Travel Advances Processed:	649	300	250
Payroll Related Vouchers:	927	480	500
No. of Invoices (Processed and Paid within 30 days):	15,600 (99%)	7,500	8,000

*Decreases in FY 1986 and FY 1987 are due to the recent transfer of field office employees to the Federal Home Loan Banks. Also the increased use of travelers checks charged to personal credit cards has reduced the need for travel advances.

		1986			
	1985 Actual	Budget Estimate	Current Estimate	1987 Estimate	Increase or Decrease(-)
Full-Time Equivalent (FTE) Positions:					
Full-Time Permanent...	38	34	34	34	-0-
Other................	-0-	-0-	-0-	-0-	-0-
Total FTE............	38	34	34	34	-0-

Administrative Services Division

The Administrative Services Division, through its three Branches - Procurement Management, Facilities Management and Reproduction and Distribution--provides support services for all Headquarters offices of the Bank Board. The Division's responsibilities include operation and maintenance of the Headquarters building, all contracting and procurement activities, property management, the Copy Center, and the Research Library.

The Division Director is responsible for the development of Federally mandated programs for energy conservation, occupational safety and health, security, and emergency preparedness. He has direct responsibility for all Headquarters building management activity including building plant operation and maintenance, commercial leasing, new construction, and interior space allocation. These activities are handled through a commercial management contractor, whose operations are monitored by Division staff.

The Division is the focal point for all agency procurement matters,including adherence to FPR's, CFR's, OMB Circular No. A-76 and the program for Socially and Economically Disadvantaged Small Business Contracts.

Procurement Management Branch

The Procurement Management Branch,through the Contracts and Small Purchases Sections, is responsible for procuring necessary goods and services in a proper and timely fashion at the least possible cost. The Branch insures adherence to all applicable Federal statutes, Executive Orders, and OMB Circulars.

The Contracts Section prepares and executes all contracts for goods and services on behalf of the Bank Board, appoints and monitors the performance of contract administrators, maintains the agency's official contract files and insures that necessary internal funding approvals are obtained prior to the execution of contracts.

The following is a summary of the significant workload statistics for the Contracts and Small Purchases Sections:

CONTRACTS

	1985 Actual	1986 (Estimate)	1987 (Estimate)
Contracts processed..................	41	50	55
Contract files maintained............	81	80	80
Funding approvals maintained.........	41	50	55
Reports processed....................	36	36	36

SMALL PURCHASES

Purchase Orders processed	2,112	1,900	1,900
	$5,230,333	$3,983,346	$4,650,275

Facilities Management Branch

The Facilities Management Branch is comprised of the Building Management Section, the Property Management Section, and the Research Library.

Building Management Section - The Building Management Section has responsibility for all aspects of Headquarters building operation which includes administration of the contract with the building management firm (HVAC maintenance and operation, courtyard conversion, elevator maintenance, control system maintenance, building repairs, office moves and construction, special projects, plumbing and electrical systems, etc). The Section is also responsible for building security, interior and exterior landscaping, custodial services, ice rink management, the Safety and Materials Recovery Programs, interior space planning and allocation, the movement of building furniture, insurance receipt and delivery to users of goods delivered to the building, storage, classified information security, emergency preparedness plans and the building's telecommunications system.

Following is a summary of work reports processed by the Facilities Management Branch:

	FY 1985	FY 1986	FY 1987
Reports on steam consumption furnished to GSA..	12	12	12
Report on total building energy usage..........	12	12	12
Report on total electrical usage and cost......	12	12	12
Report weekly with monthly summary:			
Utility usage, cost and elevator problems....	12	12	12
Optimized start/stop reports (energy mgmt.)....	12	12	12
Review maintenance contractor's work sheet.....	52	52	52
Work orders to maintenance contractor..........	200	150	150
Janitorial inspection reports..................	50	50	50
Safety meeting reports.........................	12	12	12
HVAC reports with monthly summary..............	12	12	12
Minutes on contracting progress................	30	15	15
Energy reports to Department of Energy.........	2	2	2
Reports to Building Owners and Managers Association.................................	2	1	1
Review maintenance contractor's invoices on expenditures for operations and maintenance with report................................	12	24	24

Property Management Section - The Property Management Section has responsibility for insuring property accountability of all furniture, fixtures and equipment. The Section arranges for maintenance and repair of property; acquires, maintains and distributes all expendable supplies for the agency stockroom; and processes and makes disbursements against the Impress Fund (petty cash).

The following is a summary of stockroom and inventory workload:

STOCKROOM

	1985 Actual	1986 (Estimate)	1987 (Estimate)
Total inventory items	208	225	230
FHLBB Form 1117 process (Request for supplies)	2,500	2,000	2,200

INVENTORY

	1985 Actual	1986 (Estimate)	1987 (Estimate)
FHLBB Form 1110 processed (Repair Requests)	198	240	240
Furniture, Fixtures, and Equipment transactions	10,000*	2,000	2,000

*This figure (10,000) for Furniture, Fixtures and Equipment transactions, is unusually high because the agency has converted to a computerized inventory system and is conducting a physical inventory throughout the entire Bank Board. In addition, property has been transferred from the Bank Board field offices to the District Banks.

Research Library - The Research Library, under the general supervision of the Chief, Facilities Management Branch, functions as an information center providing updated library services to the entire Bank Board. It plans and directs a centralized information program providing bibliographical and intellectual access to recorded knowledge and information that relates to the savings and loan industry. It serves as a depository for all Bank Board publications including speeches, reports, studies, journals, and other material. Over 450 periodicals, journals, newspapers, and newsletters are currently received, with the collection containing approximately 22,000 books. Principal subjects emphasized are: Economics, finance, savings and loan statistics, real estate, banking, housing, etc.

The library services include:

Circulation - The library circulates at least 12,000 pieces of material to employees of the Board, to other Federal libraries, academic libraries and Government offices.

Telephone Requests - The staff responds to over 2,700 telephone questions for information on the savings and loan industry including the subjects of housing, real estate, interest rates, etc.

Inter-Library Loans - The library receives approximately 1,800 reprints and forms from other libraries requesting the loan of FHLBB publications and other library holdings, and the library borrows 900 publications from other libraries.

Users - There are over 5,700 patrons utilizing the library facilities for various projects, research, reference, general reading, etc. Users not only include Bank Board employees but patrons from other agencies, corporations, and the general public.

Cataloging - The library receives over 3,000 different types of publications. Approximately one-half of these are cataloged and entered into our permanent holdings. Some of these are received through purchase orders while others are sent complimentary or have been specifically requested by the library.

LIBRARY STATISTICS

	1985 Actual	1986 (Estimate)	1987 (Estimate)
Circulation......................	12,500	14,250	14,500
Telephone requests..............	3,000	3,800	4,000
Inter-Library loans.............	2,963	3,500	3,650
Users services..................	7,830	8,500	8,650
Mail processed..................	17,540	18,000	18,250
Cataloging*.....................	495	1,200	1,300
Requisitions/Purchase Orders processed*.....................	107	400	425

* FY 1985 budget restrictions limited book ordering and consequently limited material to be cataloged.

Reproduction and Distribution Branch

The Reproduction and Distribution Branch is responsible for the Copy Center, mail distribution service, driver pool, automobile fleet, Government Bills of Lading and copier rental and maintenance. The Copy Center provides services to the Headquarters staff through the operation of high-speed copy machines, collating machines, power paper cutters, drilling and punching equipment. Printing services are provided through the Government Printing Office.

The following is a summary of work processed by the Printing and Distribution Section:

	1985 Actual	1986 (Estimated)	1987 (Estimated)
High Speed Copying	25,000,000	35,000,000	35,000,000
Outgoing mail handled	1,100,000	1,200,000	1,200,000
Incoming mail processed	1,088,945	1,100,000	1,100,000

	1985 Actual	1986 Budget Estimate	1986 Current Estimate	1987 Estimate	Increase or Decrease(-)
Full-Time Equivalent (FTE) Positions:					
Full-Time Permanent.	34	38	38	38	-0-
Other..............	-0-	-0-	-0-	-0-	-0
Total.........	34	38	38	38	-0-

Management Analysis Staff

The Management Analysis Staff oversees the various paperwork management programs for the Bank Board, assists in implementing administrative policies such as information resources management and cost controls, and carries out continuing studies on Board organization, policies and procedures, and equipment and manpower utilization.

Paperwork Management Programs include:

Records Management	Reports Management
Directives Management	Forms Management
Correspondence Management	Organizational Manual

Administration Policies coordinated:

Information Resources Management (Paperwork Reduction Act of 1980 and OMB Circulars relating to the Paperwork Act).

Privacy Act
Agency Productivity Reporting
U.S. Government Manual Updating
Federal Register Guide to Record Retention Requirements

Management Study Areas:

Systems and Procedures
Micrographics
Transportation and Travel
Organization and Staff Utilization
Word Processing

The staff also carries out special assignments such as:

Implementation Planning for New Policies directed by OMB, GSA, GAO, GPO, etc.
Responses to White House or Congressional Requests or Direction.

	FY85 ACTUAL	FY86 ESTIMATE	FY87 ESTIMATE
Continuous Management Studies..	87	90	95
Intermittent Agency Responses to Requests for Information.....	10	15	20
Regular Annual Agency Responses.	10	12	15
Forms Processed	214	150	150
Cubic Feet of Records Processed.	372	500	500

Full-Time Equivalent (FTE) Positions:	1985 Actual	1986 Budget Estimate	1986 Current Estimate	1987 Estimate	Increase or Decrease (-)
Full-Time Permanent	4	6	6	6	-0-
Other..............	0	-0-	-0-	-0-	-0-
Total FTE.....	4	6	6	6	-0-

Budget Division - The primary responsibilities of the Budget Division are to plan and control the annual budgets. The functions include:

1) Supervising the preparation and publication of the Bank Board's and FSLIC's budget estimates to the OMB and to the Congress.

2) Reviewing and analyzing budget estimates and supporting justification for reasonableness, accuracy, completeness, propriety, and conformance with Bank Board policies and programs.

3) Certifying the sufficiency of budgeted resources for major financial obligations and personnel ceiling control.

4) Preparing budget variance reports including analysis of actual obligations versus budget, and preparation of apportionments and reapportionments on approved budgets for OMB approval.

5) Developing and maintaining directives of budget procedures, policies, and practices.

Workload and Personnel Requirements

Workload Item	FY 1985 Actual	FY 1986 (Estimate)	FY 1987 (Estimate)
No. of Personnel Ceiling Control Checks	1,547	1,500	1,500
No.of Funds Clearances on Procurements	5,501	4,000	4,000
Report of Full-Time Equivalent Employment (SF 113G)	12	12	12
Report of Federal Civilian Employment (SF 113A)	12	12	12
Budget Variance Reports	12	12	12
Budget Management Reports	26	26	26
Reports on Budget Execution (SF 133)	16	30	36
Apportionment/Reapportionment Requests (SF 132)	14	14	14
Budget Correspondence	180	200	200

In addition, the Budget Division serves as interface with OMB in coordinating the submission of a number of operational reports prepared by various program offices within the agency. The Division coordinates the submission to OMB of the budget estimates of the Federal Home Loan Banks as these estimates appear in the Budget of the U.S.(Appendix). The Budget Division is also the focal point for the collection of 5-year obligation and outlay forecasts for the Bank Board Revolving Fund and the FSLIC Fund as required by OMB and the Congressional Budget Office.

	1985 Actual	1986 Budget Estimate	1986 Current Estimate	1987 Estimate	Increase or Decrease(-)
Full-Time Equivalent (FTE) Positions:					
Full-Time Permanent..	8	8	8	8	-0-
Other................	-0-	-0-	-0-	-0-	-0-
Total FTE..........	8	8	8	8	-0-

FEDERAL HOME LOAN BANK BOARD HEADQUARTERS BUILDING

Public Law 89-754, approved November 3, 1966, authorized the Bank Board, utilizing the services of the General Services Administration (GSA), to construct a building to provide quarters and facilities for the Board.

Acting under this statutory authority, the Board chose a site at 17th and G Streets, N.W.

The building contains 179,725 square feet of net usable office space, and 27,326 square feet of net usable retail space, currently fully leased. It has sufficient parking space for 230 cars on two parking levels. At September 30, 1985, the unamortized cost of the building including retail space tenant improvements, was $35,077,155.

The schedule on Page D-2 presents a comparative summary of building operating expenses for fiscal year 1985 (actual) and the budget estimates for 1986 and 1987.

COMPARATIVE SUMMARY OF NON-ADMINISTRATIVE EXPENSES
(Building Operations)

	1985 Actual	1986 Estimate	1987 Estimate
Personal Services and Benefits:			
Full-Time Equivalent Positions...........	5	5	5
	======	======	======
Personnel Compensation....................	$ 124,194	$ 144,000	$ 150,000
Personnel Benefits........................	15,175	18,000	19,000
Subtotal........................	139,369	162,000	169,000
Contractual Services and Supplies:			
Travel and Transportation of People................................	96	1,000	1,000
Rent, Communications and Utilities.......	954,643	1,062,000	1,170,000
Other Services............................	2,420,856	3,423,000	3,740,000
Supplies and Materials....................	41,029	40,000	40,000
Subtotal........................	3,416,624	4,526,000	4,951,000
Acquisition of Capital Assets:			
Depreciation and Noncapitalized Equipment............................	992,675	985,000	1,003,000
Total Expenses..................	$ 4,548,668	$ 5,673,000	$ 6,123,000
	===========	===========	===========

The budget estimates for 1986 and 1987 and actual expenses for 1985 for the major building operating expenses are detailed on the following page.

RENT, COMMUNICATIONS, AND UTILITIES

	1985 Actual	1986 Estimate	1987 Estimate	Increase or Decrease (-)
Electric Power........	$ 793,623	$ 880,000	$ 970,000	$ 90,000
Steam.................	141,508	152,000	167,000	15,000
Gas...................	19,512	30,000	33,000	3,000
Total........	$ 954,643	$1,062,000	$1,170,000	$ 108,000

OTHER SERVICES

	1984 Actual	1985 Estimate	1986 Estimate	Increase or Decrease(-)
Building Maintenance..	$ 806,389	$1,035,000	$1,108,000	$ 73,000
Building Repairs......	357,253	492,000	477,000	- 15,000
Interior Office Reconstruction and Relocations......	226,433	390,000	525,000	135,000
Landscaping (Interior and Exterior).....	27,105	78,000	85,000	7,000
Courtyard/Pool Deck Conversion........	4,610	16,000	13,000	- 3,000
Custodial Services....	369,786	440,000	490,000	50,000
Guard Service.........	450,852	470,000	496,000	26,000
Insurance.............	17,791	30,000	34,000	4,000
Advertising...........	12,505	12,000	12,000	-0-
Safety................	14,183	14,000	14,000	-0-
FF&E Repairs..........	23,556	26,000	26,000	-0-
Contract Mail Service.	25,768	250,000	275,000	25,000
Management Fees and Other Professional Services......	84,625	170,000	185,000	15,000
Total........	$2,420,856	$3,423,000	$3,740,000	$ 317,000

There follows a brief description of the above items and explanation of the major increases for fiscal year 1987 over 1986.

Electric Power

An increase over 1986 is provided for rate increases and additional usage. Electricity costs for 1987 are estimated to be $970,000.

Steam

Steam for heating the building is purchased from GSA. The increase of $15,000 over 1986 is provided to cover expected rate hikes.

Gas

Costs are projected to increase to $33,000 in fiscal year 1987, a 10% increase over FY 1986. The lower costs in 1985 resulted primarily from fuel charge rebates.

Building Maintenance

This category is for supplies, subcontracts, and union personnel (engineers, mechanical helpers and electricians) to operate, maintain and repair the heating, ventilation and air conditioning equipment in the headquarters building. In addition, included is the operation, maintenance and repair of the mechanical and electrical systems and equipment. The building's electrical control system and elevator maintenance subcontracts fall under this category.

Building Repairs

This category includes all electrical or carpentry work to common areas for retail spaces such as restrooms, trash rooms and building perimeter. All other miscellaneous spaces such as repointing brickwork, painting elevators and fixing floor panels are also part of this category. A one-time added expense will be incurred in FY 86 in connection with heating, ventilation, and air conditioning systems. In FY 87, building repair costs are expected to stabilize.

Interior Office Reconstruction and Relocation

This category includes all moves within the building including wall, work-stations, electrical re-working, etc., and other projects. The large increase is provided for office space realignments associated with a substantial increase in staffing.

Landscaping

Included in this category are the costs of the interior and exterior plant maintenance contracts and potential replacement costs for plants and trees. FY 1985 costs were lower than normal because of a very low bid in FY 1985 (and inadequate work); these costs will return to previous levels in FY 1986 with retention of a new contractor.

Courtyard/Pool Deck Conversion

Included in this category is the cost of the seasonal conversions of the courtyard from reflecting pool with deck to ice rink and back. The second seasonal conversion was not accomplished in FY 1985 resulting in lower than normal costs.

Custodial Services

This category includes costs of supplies provided under the custodial contract, wages of contractor personnel as determined by the Department of Labor, and subcontracts and purchase orders for all custodial work in the building. The prescribed level of cleaning has increased with the addition of more fixtures.

Guard Service

This category includes costs of supplies, wages as determined by the Department of Labor,and subcontracts and purchase orders for all guard and security services for the building.

Insurance

This category includes the premiums on insurance policies to protect the building shell and specialized equipment found in the computer room and Copy Center. Premiums are increasing due to the addition of certain computer equipment under policy coverage, and the need to insure for full replacement value.

Advertising

This category incorporates the cost of advertising for tenant areas and plaza activities.

Management Fees and Other Professional Services

This category includes the costs of the contract building manager and staff, and the ice rink management contract.

Mail Service Operations

Building mail service operations are being contracted out following a successful pilot effort in FY 1985.

Safety

This category covers expenses for the building safety program as required under Occupational Safety and Health Administration (OSHA) regulations.

Office of Examinations and Supervision
District Offices

Effective July 7, 1985, responsibility for examining FSLIC-insured thrift institutions was delegated by the Bank Board to the Principal Supervisory Agents of each of the twelve Federal Home Loan Banks. To accomplish this change, the Federal employees filling the 897 examination and supervision positions in the Board's district offices were transferred from the Federal personnel system to the district banks. This transfer provides the district banks the necessary flexibility to hire and maintain a fully effective field examination force capable of responding to rapidly changing workload requirements precipitated by deregulation of the thrift industry.

Actual total consumption of annual employment ceiling and expenses for FY 1985, as shown on the following table, reflect savings in most object classes commensurate with the transfer of the OES Field function to the Federal Home Loan Banks in July of 1985.

Office of Examinations and Supervision
NON-ADMINISTRATIVE EXPENSES

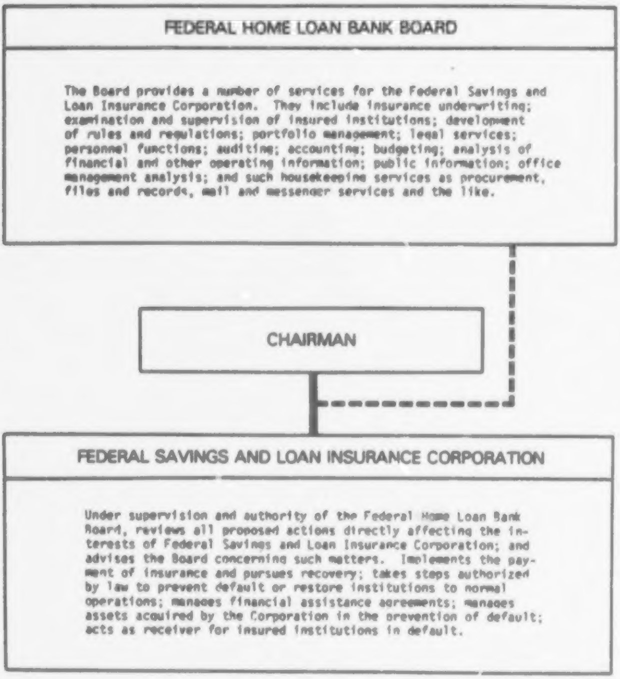
	1985 - Actual	
	Full-Time Equivalent	Amount
Personnel Services and Benefits:		
Personnel Compensation:		
Boston	24	$ 857,000
New York	58	1,691,000
Pittsburgh	39	1,219,000
Atlanta	96	2,953,000
Cincinnati	68	2,407,000
Indianapolis	30	972,000
Chicago	80	2,249,000
Des Moines	45	1,371,000
Dallas	106	3,054,076
Topeka	32	1,027,000
San Francisco	82	2,618,000
Seattle	21	1,091,000
TOTAL PERSONNEL COMPENSATION	679	21,509,076
Personnel Benefits:		
Health Benefits		509,481
Life Insurance		95,060
Relocation Expense		477,874
Retirement		1,437,353
Social Security Tax (FICA)		140,000
Medicare		271,109
Severance Pay		-0-
Federal Employees'Compensation Act.		100,590
Unemployment Compensation-Federal Employees (UCFE)		19,461
TOTAL PERSONNEL BENEFITS		3,101,858
TOTAL PERSONNEL SERVICES AND BENEFITS		24,610,934
Contractual Services & Supplies:		
Travel & Transportation of Persons		5,984,751
Transportation of Things		175,934
Rent, Communications & Utilities		2,822,835
Printing and Reproduction		51,036
Other Services		1,710,016
Supplies and Materials		270,872
TOTAL CONTRACTUAL SERVICES & SUPPLIES		10,015,444
Acquisition of Capital Assets:		
Equipment		227,271
TOTAL EXPENSES		34,853,649
Savings		8,330,351
ACTUAL, AUTHORIZATION AND ESTIMATE		43,184,000

NOTE: The considerable savings in FY 1985 employment ceiling and expenses compared with the Congressionally approved budget results from the July 1985 reorganization whereby the OES Field function was transferred to the Federal Home Loan Banks.

FEDERAL HOME LOAN BANK BOARD

ORGANIZATION AND FUNCTION CHART OF THE OPERATIONS OF THE FEDERAL SAVINGS AND LOAN INSURANCE CORPORATION

Created by Title IV of the National Housing Act, 1934, for the purpose of insuring savings in all Federal savings and loan associations, Federal savings banks, and in all State-chartered savings and loan, building and loan, and homestead associations and cooperative banks which apply and qualify. The insurance coverage for each saver is limited to $100,000.



FEDERAL HOME LOAN BANK BOARD

The Board provides a number of services for the Federal Savings and Loan Insurance Corporation. They include insurance underwriting; examination and supervision of insured institutions; development of rules and regulations; portfolio management; legal services; personnel functions; auditing; accounting; budgeting; analysis of financial and other operating information; public information; office management analysis; and such housekeeping services as procurement, files and records, mail and messenger services and the like.

CHAIRMAN

FEDERAL SAVINGS AND LOAN INSURANCE CORPORATION

Under supervision and authority of the Federal Home Loan Bank Board, reviews all proposed actions directly affecting the interests of Federal Savings and Loan Insurance Corporation; and advises the Board concerning such matters. Implements the payment of insurance and pursues recovery; takes steps authorized by law to prevent default or restore institutions to normal operations; manages financial assistance agreements; manages assets acquired by the Corporation in the prevention of default; acts as receiver for insured institutions in default.

━━━━ Administrative Direction and Coordination

- - - - - Substantive Responsibilities

Approved:

CHAIRMAN

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Federal Savings and Loan Insurance Corporation
A. Statement of Sources and Application of Funds

	1985 Actual	1986 Estimate	1987 Estimate
FUNDS APPLIED			
To Operations			
Acquisition of Assets:			
Assets Purchased from Insured Institutions	$ 113,930,810	$ 100,000,000	$ 100,000,000
Subrogated Accounts Purchased from Insured Institutions	1,369,314,272	655,000,000	717,300,000
ICC's Acquired from Insured Institutions	828,125,000	1,300,000,000	1,300,000,000
Furniture, Fixtures and Equipment	493,982	500,000	500,000
Loans to Insured Institutions	246,099,900	200,000,000	100,000,000
Secured Advances to Receivers	763,163,201	300,000,000	-0-
Provision For Contributions to Insured Institutions	571,559,596	729,000,000	1,029,000,000
Expenses	1,045,010,755	529,087,000	395,315,000
Refund of Additional Premium Prepayments	820,041	-0-	-0-
Credit Allowed on Regular Insurance Premiums	-0-	-0-	-0-
Repayment of Notes Payable (ICCs)	-0-	-0-	-0-
Increase in Selected Working Capital	-0-	-0-	-0-
Total Applied to Operations	4,938,517,557	3,813,587,000	3,142,115,000
To Financing			
Increase/Decrease(-) in Treasury Cash	- 438,653	-0-	-0-
Increase/Decrease(-) in Investments in U.S. Securities (par)	- 414,051,000	- 457,000,000	197,117,000
Total Applied to Financing	- 414,489,653	- 457,000,000	197,117,000
Total Funds Applied	4,524,027,904	3,356,587,000	3,339,232,000
FUNDS PROVIDED			
By Operations			
Realization on Loans to Insured Institutions	123,223,593	19,156,000	4,530,000
Realization on Assets Acquired From Insured Institutions	871,387,628	79,302,000	80,000,000
Liquidation of Subrogated Accounts	86,129,031	366,100,000	380,500,000
Realization on Secured Advances	123,189,106	-0-	-0-
Return on Additional Premium Prepayments	60,887,852	65,698,000	60,000,000
Gain on Assets Acquired From Insured Institutions	-0-	-0-	-0-
Principal Payments on ICC's & NWC's	5,102,525	-0-	56,629,000
Income	2,110,574,101	1,373,892,000	1,472,554,000
Decrease in Selected Working Capital	437,980,068	1,215,094,000	1,257,019,000
Prior Period Adjustment	-0-	-0-	-0-
Provision for Losses	705,554,000	237,345,000	70,000,000
Total Funds Provided	4,524,027,904	3,356,587,000	3,339,232,000
BUDGET EXPENDITURES			
Funds Applied to Operations	4,938,517,557	3,813,587,000	3,142,115,000
Funds Provided by Operations	4,524,027,904	3,356,587,000	3,339,232,000
Net Budget Expenditures	414,489,653	457,000,000	- 197,117,000

239

Federal Savings & Loan Insurance Corporation
B. Statement of Income and Expense

	1985 Actual	1986 Estimate	1987 Estimate
Income			
Insurance Premiums & Admission Fees Earned..........................	$1,412,737,083	$ 757,000,000	$ 833,060,000
Interest on U.S. and Federal Agency Securities....................	539,609,913	534,793,000	509,326,000
Interest on Loans........................	82,730,040	6,099,000	4,168,000
Interest on Secured Advances............	29,445,363	40,000,000	40,000,000
Income on Assets Acquired from Insured Institutions............	24,571,935	6,000,000	6,000,000
Miscellaneous..........................	21,479,767	30,000,000	30,000,000
Total Income..........................	2,110,574,101	1,373,892,000	1,422,554,000
Expense			
Administrative Expenses.................	1,210,111	1,378,000	1,466,000
Payments to the Federal Home Loan Bank Board for Services and Facilities......................	25,987,000	24,133,000	28,737,000
Liquidation & Other Expenses............	91,268,012	48,736,000	61,632,000
Provision for Contributions to Insured Institutions.............	571,559,596	729,000,000	1,029,000,000
Provision for Losses on Subrogated Accounts............................	591,967,687	188,840,000	5,000,000
Provision for Losses on ICC's...........	72,457,000	25,000,000	45,000,000
Provision for Losses on Secured Advances............................	60,127,729	-0-	-0-
Interest on Notes Payable...............	92,441,165	150,000,000	159,000,000
Subtotal..........................	1,507,018,300	1,167,087,000	1,329,835,000
Loss on Sale/Exchange of Securities..........................	-0-	5,302,000	6,480,000
Accrued Return on Additional Premium Prepayments.................	60,887,051	65,698,000	68,000,000
Provision for Losses on Assets Acquired............................	48,664,300	20,000,000	20,000,000
Depreciation on Furniture, Fixtures & Equipment................	75,587	101,000	105,000
Total Expenses....................	1,616,645,938	1,258,188,000	1,424,420,000
Net Income for the Year................	493,928,163	115,704,000	- 1,866,000
ANALYSIS OF RETAINED EARNINGS*			
Retained Earnings, Beginning of Year..............................	6,238,274,630	6,732,202,793	6,847,906,793
Retained Earnings, End of Year.........	6,732,202,793	6,847,906,793	6,846,040,793

* In addition to retained earnings, which are credited to the primary reserve, additional premium prepayments and return on additional premiums are credited to a secondary reserve (See Attachment C).

240

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Federal Savings and Loan Insurance Corporation

C. Statement of Financial Condition

	1984 Actual	1985 Actual	1986 Estimate	1987 Estimate
ASSETS				
Cash with U.S. Treasury........	$ 1,007,490	$ 560,837	$ 560,837	$ 560,837
Cash with Banks...............	2,866,317	2,852,145	2,852,145	2,852,145
Investments...................	6,238,471,700	5,824,420,700	5,367,420,700	5,564,537,700
Accounts Receivable, Net......	74,816,284	360,530,930	360,531,347	44,996,995
Assets Acquired from Insured Institutions, Net..	869,828,261	130,570,005	130,570,006	130,570,006
Loans to Insured Institutions, Net..........	917,106,864	1,039,983,161	1,220,827,161	1,316,297,161
Furniture, Fixtures, and Equipment, Net.........	584,122	982,517	1,381,517	1,776,517
Subrogated Accounts in Insured Institutions in Liquidation, Net........	551,479,325	1,242,096,879	1,360,149,879	1,171,949,879
Income Capital and Net Worth Certificates, Net..........	731,988,795	1,482,554,270	2,757,554,270	3,955,925,270
Secured Advances Due from Receiver, Net........................	-0-	579,846,366	879,846,366	879,846,366
Total Assets.............	9,386,721,148	10,665,205,810	12,061,702,228	13,069,320,000
LIABILITIES				
Current Liabilities...........	2,444,028,070	3,168,516,612	4,383,611,029	5,325,095,681
Total Liabilities........	2,444,028,070	3,168,516,612	4,383,611,029	5,325,095,681
INSURANCE RESERVES				
Primary Reserve...............	6,238,274,630	6,732,202,793	6,847,906,793	6,846,040,793
Secondary Reserve (Additional Premiums)......	659,828,072	720,183,988	785,184,406	50,184,406
Reserve for Accrued Return on Additional Premiums.....	44,590,376	44,302,417	45,000,000	48,000,000
Total Insurance Reserves.	6,942,693,078	7,496,689,198	7,678,091,199	7,744,225,199
Total Liabilities and Insurance Reserves......	9,386,721,148	10,665,205,810	12,061,702,228	13,069,320,000

E-3

PROGRAM HIGHLIGHTS

The Federal Savings and Loan Insurance Corporation (FSLIC) insures savings accounts up to $100,000 for each insured account holder in Federal savings and loan associations, Federal savings banks, and approved state-chartered savings and loan or building and loan associations, known in some sections of the country as co-operative banks and homestead associations.

The budget program is designed to permit the Corporation to handle adequately and with dispatch its various insurance activities and to protect the savings which are invested in insured associations.

Description	Sept. 30 1985 Actual	Sept. 30 1986 Estimate	Sept. 30 1987 Estimate
	(Dollars in Millions)		
Insured Institutions:			
Number..........................	3,224*	3,284	3,294
Assets..........................	$ 1,041,300*	$1,145,000	$1,271,000
Potential Liability.............	768,700*	847,300	940,500
Net Worth.......................	44,200*	50,700	57,700
Insurance Corporation:			
Reserve for Insurance Losses....	$ 7,497	$ 5,514	$ 5,455

*Preliminary Actual

CREATION AND GROWTH

The Corporation was created in 1934 to insure savings accounts up to $5,000 in all Federal savings associations and in approved state-chartered savings and loan or building and loan associations, co-operative banks and homestead associations. In 1950, the insurance limit was raised to $10,000 by Public Law 797, Eighty-first Congress. In 1966, the insurance limit was raised to $20,000 by Public Law 151, Ninety-first Congress. In 1974, the insurance limit was raised to $40,000 by Public Law 93-495. In 1980, the insurance limit was raised to $100,000 by Public Law 96-221, approved March 21, 1980.

As intended by the Congress, the insuring of the accounts of individual investors creates an incentive for the investment of savings in institutions of the savings and loan type, thus stimulating the flow of private credit for home financing into institutions specifically created for home financing.

Public demand for protection of its savings has greatly increased the growth of insured institutions. This growth is reflected in the table following on the next page showing the number, assets, and average size of insured institutions at the end of the fiscal year.

Fiscal Year-End	Number of Members	Assets in Billions	Average Size in Millions
1950	2,799	$ 12.5	$ 4.5
1955	3,472	31.6	9.1
1960	4,044	63.3	15.7
1965	4,483	119.7	26.7
1970	4,406	161.4	36.6
1975	4,110	310.3	75.5
1980	4,019	598.1	149.0
1981	3,871	649.4	167.8
1982	3,425	683.3	199.5
1983	3,209	789.2	245.9
1984	3,164	938.2	296.5
1985*	3,224	1,041.3	323.0
1986**	3,284	1,145.0	348.7
1987**	3,294	1,271.0	385.9

*Preliminary Actual
**Estimate

In summary, membership reached 3,224 on September 30, 1985, an increase of 60 for that year. It is expected to increase another 60 during fiscal year 1986, and by 10 during fiscal year 1987, bringing the total to 3,294 by September 30, 1987.

Assets of insured institutions aggregated $1,041.3 billion at September 30, 1985, an increase of $103.1 billion or 11%. An increase of $103.7 billion is expected in fiscal year 1986 and $126 billion in fiscal year 1987, bringing the total to $1,271.0 billion at September 30, 1987, an estimated increase of $229.7 billion or 22.1% in two years.

The average size of these insured institutions increased from $296.5 million at September 30, 1984, to $323 million at September 30, 1985, an increase of 8.9%. It is expected to reach $385.9 million by September 30, 1987, an increase of 19.5% over September 30, 1985.

The number of insured and uninsured savings and loan associations on September 30, 1985, was 3,453. Of this number, 3,224 or 93.4% were insured while 229 or 6.6% were not. Assets of insured savings and loan associations on September 30, 1985, aggregated $1,041.3 billion. Assets of uninsured savings and loan associations on September 30, 1985, aggregated $105.2 billion.

DEPOSITORS

The table on the following page shows the number of deposit accounts, total deposits, and size of the average account at the end of the fiscal year.

Fiscal Year-End	Number of Deposit Accounts (In Thousands)	Total Deposits (Billions)	Size of Average Account
1950	7,663	$ 10.6	$ 1,389
1955	14,700	27.0	1,837
1960	25,869	54.9	2,122
1965	37,407	102.0	2,727
1970	45,670	134.0	2,934
1975	64,300	262.1	4,076
1980	91,200	487.3	5,343
1981	96,200	505.2	5,249
1982	98,600	536.4	5,252
1983	102,200	649.4	6,354
1984	108,000	751.3	6,956
1985*	112,925	831.0	7,359
1986**	120,500	916.0	7,602
1987**	128,700	1,016.8	7,901

*Preliminary Actual
**Estimate

Referring to the table above, the number of deposit accounts at September 30, 1985 showed an increase of 4.6% over the number on September 30, 1984. This figure is expected to increase by 6.7% in the current fiscal year and reach 128,700 by September 30, 1987, an increase of 14% for the 24-month period.

Deposits totaled $831.0 billion at September 30, 1985, an increase of $79.7 billion or 10.6% since September 30, 1984. An increase of $85.0 billion is expected during the current fiscal year. Deposits are expected to reach $1,016.8 billion by September 30, 1987.

The size of the average insured account was $7,359 at September 30, 1985. It is expected to reach $7,901 by September 30, 1987, an increase of 7.4% in the 24-month period.

RESERVES

The following table identifies the net worth of all insured institutions, as well as the reserves accumulated by the Insurance Corporation, by fiscal years:

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		FSLIC		
Fiscal Year-End	All Insured Institutions	Total	Primary (In Millions)	Secondary
1950	$ 874	$ 88	$ 88	$ ...
1955	2,090	171	171	...
1960	4,400	354	354	...
1965	8,122	1,487	690	797
1970	11,542	2,854	1,326	1,528
1975	18,414	3,933	2,566	1,367
1980	32,010	6,149	5,333	816
1981	29,338	6,608	5,982	626
1982	23,738	6,474	5,873	601
1983	30,788	6,686	6,040	646
1984	36,274	6,942	6,238	704
1985	44,200*	7,497	6,732	765
1986**	50,700	5,514	4,665	849
1987**	57,700	5,455	4,541	914

*Preliminary Actual
**Estimate

The reserves and undivided profits of insured institutions aggregated $44.2 billion at September 30, 1985, an increase of 21.9% over the amount of September 30, 1984. It is expected to be at $ 57.7 billion at September 30, 1987.

RESERVES-LEGISLATIVE HISTORY

The Corporation's Reserve for insurance losses was $410 million at June 30, 1961. The basic law required the Corporation to build up a reserve until it was equal to 5% of insured accounts plus all insured institutions' creditor obligations. The enactment of Public Law 87-210, approved September 8, 1961, revised the reserve requirements. This law, effective January 1, 1962, required each insured institution to annually pay the Corporation an additional premium in the nature of a prepayment at a rate equal to two percent of the increase in savings for the previous calendar year less an amount equal to any requirement for the purchase of Federal Home Loan Bank stock during such period. The law further required the Corporation to establish a Primary Reserve (which is the general reserve of the Corporation) and a Secondary Reserve to which was credited the amounts of the prepayments made by the insured institutions. When the sum of these two reserves equaled 2% of total savings plus creditors' obligations, the prepayments would cease. The Corporation would commence transferring the Secondary Reserves to the Primary Reserves by charging each insured association's accumulated prepayments with its regular annual premium liability. Finally, if the aggregate of the Secondary and Primary Reserves dropped below 1.75% of total savings, plus creditor liabilities at the end of any calendar year, premium prepayments would resume and regular annual premiums would be paid by insured institutions until the aggregate of the Primary and Secondary Reserves again reached 2.0% as of the end of a calendar year.

Public Law 91-151, approved December 23, 1969, excluded creditor obligations from the above-mentioned calculations, and provided that the condition under which prepayments were to cease and accumulated prepayments were to be credited toward the regular premium was deemed to have been met as of the close of December 31, 1969. Public Law 92-213, approved December 22, 1971, reduced the premium prepayment resumption trigger from 1.75% to 1.60%.

At December 31, 1972, the Corporation's reserves ratio dropped below 1.60% of total savings in insured institutions. Public Law 93-100, approved August 16, 1973, permanently removed the requirement for premium prepayments and granted authority to the Board for determining each year the amount of members' annual premiums which would be paid in cash (the amount cannot be less than 30% nor more than 70%), and the amount which would be charged to the members' pro rata shares of the Secondary Reserve. The law also provided that if the Corporation's aggregate reserves fall below 1.25% of total insured savings capital, regular annual premiums would be paid 100% in cash.

Public Law 93-495, approved October 28, 1974, provides for a phase-out of the Secondary Reserve over the first ten minimum net reduction years occurring after December 31, 1973. In May of each year, the Corporation will reduce the amount of each insured institution's pro rata share of the Secondary Reserve as of the preceding December 31 by a cash refund determined as the difference between such pro rata share at that date and a prescribed percentage of its balance as of December 31, 1973. The law provides also that if the aggregate reserves fall below 1.25% of total insured savings capital as of the end of a calendar year, phase-out installments would cease until the reserves again reach 1.25% of savings. As of September 30, 1985, the aggregate reserves totaled $7.5 billion, or 0.9% of total savings.

Section 1110(d) of Public Law 89-117, effective August 10, 1965, enables the Corporation to obtain additional liquidity, if necessary, by calling upon insured institutions to make deposits in the Corporation up to one percent of their withdrawable savings. The Corporation has not found it necessary to use this authority to date.

Section 126 of the Garn-St Germain Depository Institutions Act of 1982, which amends Section 404 of the National Housing Act, permits the FSLIC to terminate the payback of the secondary insurance and to use the reserve exactly as it uses the primary reserves. This action may be taken by the FSLIC when it determines that extraordinary financial conditions exist which increase the risk to the insurance reserves. The payback may continue thereafter, if otherwise authorized by law. The secondary reserve previously could be used only to cover losses of the Corporation, and only to the extent that the primary reserve was not available.

During the fiscal year 1985, the Bank Board directed the assessments of additional insurance premiums to each insured institution equal to one thirty-second of one percent of the total of the insured deposits at these institutions in each of the three quarters ending March 31st, June 30th, and September 30th, 1985. These additional assessments are authorized under Section 404 (c) of the National Housing Act, 12 U.S.C. 1728, and were levied by the Board to maintain an adequate level of insurance reserves in the FSLIC Fund following the period 1981 through 1984 during which time the Fund sustained substantial losses and expenses in liquidations and default prevention activities. The amount collected in 1985 from the additional assessments totaled $750.5 million.

INSURANCE LIABILITY

The following table shows the potential liability of the Corporation during the period 1950 to 1987.

Fiscal Year-End	Potential Liability In Billions 1/
1950	$ 10.5
1955	27.4
1960	54.7
1965	102.5
1970	131.9
1975	256.9
1980	482.5
1981	483.4
1982	519.3
1983	616.9
1984	695.0
1985*	768.7
1986**	847.3
1987**	940.5

*Preliminary Actual
**Estimate
1/ Creditor obligations included prior to 1969.

The potential liability of the Corporation increased from $695.0 billion at September 30, 1984 to $768.7 billion at September 30, 1985, an increase of 10.6%. It is expected to be $847.3 billion by September 30, 1986, and $940.5 billion by September 30, 1987, an increase of 22.4% in the 24-month period.

FSLIC CASES

The table on the following page shows the settlement of FSLIC cases since the Corporation's inception through September 30, 1985.

METHOD OF SETTLEMENT	NUMBER OF CASES	NUMBER OF INVESTORS PROTECTED (In Thousands)	ACTUAL LOSSES SUSTAINED AND PROVISIONS FOR LOSSES (In Millions)
Acquisition of Assets......	16	144	$ 996.6
Acquisition of Assets and Contribution..............	25	276	622.2
Contribution...............	203	6,214	1,980.6
Contribution and Loan......	18	400	244.9
Contribution, Loan and Acquisition of Assets.....	6	279	582.3
Loan.......................	5	190	12.0
Loan and Acquisition of Assets.....................	1	26	3.7
Receivership and Acquisition of Assets.................	2	29	4.1
Receivership.................	36	286	1,367.6
Purchase and Assumption....	5	101	77.6
TOTAL...........	317	7,945	$5,891.5

OFFICE OF FEDERAL SAVINGS AND LOAN INSURANCE CORPORATION

FUNCTIONS AND ACTIVITIES

The Office of Federal Savings and Loan Insurance Corporation (FSLIC) operates under the general direction and supervision of the Federal Home Loan Bank Board. The FSLIC's mission is to protect, at the least cost, savings of up to $100,000 per insured member of those insured institutions which are in default or are in danger of default. The Office advises the Board on all Corporation affairs and works in close liaison with other offices of the Board on Corporation matters. It manages assets of the Corporation resulting from default and prevention-of-default actions. It represents the Corporation to savers in savings and loan associations, to the savings and loan industry, and to the public generally, particularly with reference to matters relating to insurance coverage. It also develops policy guidelines for use by the Board and its staff in the disposition of matters affecting insurance interests.

Pursuant to authority under the law, the Corporation takes steps necessary to prevent default in an insured institution and to restore an insured institution to normal operations. If an insured institution is in default (i.e., when a receiver is legally appointed for the purpose of liquidation), the Corporation moves promptly to pay insurance in accordance with its statutory responsibility. The Board, in circumstances where an account holder is otherwise unable to withdraw their savings, may authorize the Corporation to pay insured accounts.

A discussion of the responsibilities of the five Divisions of the Office of Federal Savings and Loan Insurance Corporation follows.

MERGERS AND ACQUISITION DIVISION

The Mergers and Acquisition Division is directly concerned with insured member institutions which present unusual and difficult risk situations, the resolution of which may involve financial assistance by the FSLIC.

The problems may relate to adverse economic conditions, imprudent business practices, conflicts of interest or self-dealing by officers and directors, or any combination of activities which could threaten the viability of the institution. Every effort is expended to seek solutions, such as infusion of capital by stockholders or voluntary merger, which does not require FSLIC financial assistance. Only when these avenues are exhausted and an institution is in danger of default will the FSLIC intercede financially to prevent default or make payment on the insured deposits to effect the least costly but viable solution to the problem.

The default prevention alternatives defined in Section 406(f) of the National Housing Act authorize the Corporation to purchase the assets of, make a contribution to, or make loans to an insured institution in or threatened with default. These alternatives are summarized below:

(1) Purchase of Assets

To prevent default or minimize losses, the Corporation may purchase all or a portion of the standard assets of an impaired institution or one whose viability is threatened.. In addition to recommending corrective measures designed to prevent recurrence of financial difficulties, a primary responsibility of the Corporation is the orderly liquidation of the assets acquired.

(2) Contribution

Whenever an insured institution is impaired, the Corporation may make, or commit itself to make, a cash contribution in any amount sufficient to cure the impairment. Throughout the life of such financial assistance agreements - generally five to seven years - the Corporation maintains close liaison with the institution involved assisting in its rehabilitation and supervising the liquidation of risk assets.

(3) Loan

Another statutory power to forestall or minimize losses authorizes the Corporation to make loans to institutions in or threatened with default.

(4) Merger

When in the best interest of insured savings account holders, and when such action is not in conflict with the best interests of the Corporation, the Corporation may act as sponsor and negotiate the merger of an institution threatened by default with a strong insured institution. When insured State-chartered associations are involved, the cooperation of State authorities is sought. Such mergers may involve a purchase of sub-standard assets by the Corporation and generally involve a contribution to the resulting entity.

The following table shows the number of cases settled by the FSLIC during fiscal year 1985:

Method of Settlement	No. of Cases	Net Outlay by FSLIC ($ Millions)
Contribution	15	$ 571.6
Contribution and Loan	4	37.6
Acquisition, Contribution, and Loan	1	11.1
Receiverships	12	652.1
	32	$ 1,272.4

Financial Assistance Division

This Division administers and manages FSLIC's responsibilities under contribution agreements. The assistance provided through such agreements includes contributions to associations resulting from supervisory mergers. Working closely with the successor associations, the Division's staff makes sure that the interests of the FSLIC are fully protected and provides technical assistance to the association's management in liquidating problem assets. This step involves assistance as needed in decisions regarding the sale, repair, and rehabilitation of assets, the payment of liens and legal claims, and other such determinations. Claims for assistance agreement reimbursement by the successor associations are reviewed to determine that such claims are within the terms of the agreement. Periodic on-site audits, under the direction of the Audit Section, are performed to determine agreement compliance.

Operations and Liquidation Division

When prevention of default is neither practical nor economical and an insured institution is placed in receivership for liquidation, the Corporation, by law, must be appointed sole receiver if the association is operating under Federal charter. Pursuant to legislation enacted July 1, 1968, the Federal Home Loan Bank Board has independent authority to appoint the Corporation as receiver under Federal law in those cases relating to State-chartered, insured institutions where the State has appointed a receiver or custodian or the association is closed under State law. In any event, the Corporation must make prompt payment of insurance to savings account holders in all instances, either in cash or by transferred account in another insured association. The Corporation has full responsibility for all phases of liquidation for which it is receiver and for maintaining vigilant liaison with other receivers for insured institutions in order to eliminate the ultimate drain on the Corporation's resources.

The Operations and Liquidation Division manages and disposes of assets acquired in discharging FSLIC's insurance settlement and default prevention actions. The Division is a specialized corporate management and marketing arm of the FSLIC. In its marketing capacity, it packages and sells selected items, generally those requiring special expertise or concentrated marketing efforts, assigned from the overall FSLIC asset portfolio. The number of personnel needed by the Operations and Liquidation Division is determined by the volume of assets acquired by the Corporation in the resolution of problem cases. Volume of failed institutions and the composition of assets therein are useful criteria in identifying the magnitude of workload.

The following table reflects the volume of assets at the end of fiscal years 1967 to 1985.

Fiscal Year End	Assets Managed ($ in Millions)
1967	$ 129.7
1968	127.9
1969	136.8
1970	224.6
1971	161.3
1972	124.2
1973	83.9
1974	56.7
1975	83.6
1976	70.0
1977	32.1
1978	38.0
1979	52.6
1980	1,163.6
1981	1,646.3
1982	1,534.6
1983	1,584.0
1984	1,315.0
1985	2,444.6

Insurance Division

Insurance settlement and dissemination of information on insurance coverage are the functions of the Insurance Division. The inability to predict the number of problem cases that will deteriorate to the point of receivership for the purpose of liquidation makes it difficult to predict the level of insurance settlement activity of this Division. However, notwithstanding the fact that a specific problem case may never reach the point of an insurance payout, careful and extensive preparation and detailed planning -difficult to measure in terms of workload - are necessary in such cases. This effort is expanded to preserve the Corporation's public image as a prompt payer of insurance.

In 1981, the Corporation settled insurance at one savings and loan. This was the first payout in almost 10 years. Since then, the Corporation has settled insurance on a total of 24 insured associations, involving 198,098 insured accounts totalling $2,074.4 million.

In 1982, the FSLIC developed a new method of settling insurance: transfer of accounts. In a transfer of accounts, the insured savings of the failing association are offered to other associations through a competitive bidding process.

The successful bidder pays the FSLIC a premium for acquiring the insured accounts. In addition to the cost savings, transfer of accounts has other advantages, including:

- Rapid reopening of the failed institution. Usually the failing association is closed on Friday, and its offices are reopened on Monday as branches of the acquiring institution. This results in a lower profile insurance settlement.

- Less disruption for depositors. The terms and rates on their insured accounts remain in effect.

Transfer of accounts was first used in the insurance settlement cases which occurred in 1982. Of the 24 insurance settlements since 1981, transfer of accounts has been used 19 times to settle nearly 190,000 insured accounts totaling $2,027.5 million. In these transactions, FSLIC received premiums totaling $90.2 million.

Evaluation and Analysis Division

The management of FSLIC's programs in today's economic climate requires continuing analyses by FSLIC personnel to deal with changing conditions and direct involvement in rehabilitative efforts. The Evaluation and Analysis Division utilizes special staff trained in sophisticated management science and computer modeling techniques to provide in-depth analytical support to the Corporation.

PROJECTED ACTIVITY

The future activity of the Corporation in today's climate is difficult to predict. The effects of negative earnings in the early 1980's significantly weakened the industry and the FSLIC is still dealing with some of these cases. More recently, cases resulting from poor quality investments and loans, attributable to excessive risk taking by the institutions' management, have increased.

The continued growth and diversifying activities of the savings and loan business contribute to the FSLIC workload. Insured membership increased during fiscal year 1985 by 60, reaching 3,224. Their assets on the same date aggregated $1,041.3 billion, an increase of $103.1 billion or 11%. They are expected to reach $1,271.0 billion on September 30, 1987, an increase of $229.7 billion or 22.1% in the 24-month period. Potential liability increased from $695.0 billion at September 30, 1984, to $768.7 billion on September 30, 1985, an increase of $73.7 billion or 10.6%.

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Budget Summary

The 1987 estimates of administrative expenses of the Federal Savings and Loan Insurance Corporation, the revised estimates for the current fiscal year, and actual expenses for fiscal 1985 are summarized in the following table:

		1986			
	1985 Actual	Budget Estimate	Current Estimate	1987 Estimate	Increase or Decrease (-)
Full-Time Equivalent (FTE) Position.........	18	19	19	19	-0-
Personnel Compensation.	$ 741,799	$ 894,000	$ 921,000	938,000	17,000
Personnel Benefits.....	84,217	94,000	95,000	101,000	6,000
Total Personnel Service & Benefits.....	826,016	988,000	1,016,000	1,039,000	23,000
Contractual Services and Supplies...........	382,407	412,000	422,000	425,000	3,000
Acquisition of Capital Assets.........	1,708	4,000	2,000	2,000	-0-
Total Gross Expenses...	1,210,131	1,404,000	1,440,000	1,466,000	26,000
Estimated Savings......	132,869	-0-	-0-	-0-	-0-
Actual, Authorization, and Estimate..........	1,343,000	1,404,000	1,440,000	1,466,000	26,000

As indicated in the table above, the fiscal year 1986 budget estimate of $1,440,000 was fully enacted by the Congress. The 1987 estimate reflects a net increase in funds of $26,000 from the estimate for the current fiscal year. The net increase, by category of expense, is shown below.

Item	Increased Amount
Personnel Compensation.........................	$17,000
Personnel Benefits.............................	6,000
Travel and Transportation of Persons..........	1,000
Transportation of Things......................	-0-
Rent, Communications, and Utilities...........	1,000
Printing and Reproduction.....................	-0-
Other Services................................	1,000
Supplies and Materials........................	-0-
Acquisition of Capital Assets.................	-0-
TOTAL...................................	26,000

COMPARATIVE SUMMARY OF ADMINISTRATIVE EXPENSES

	1985 Actual	1986 Estimate	1987 Estimate
Personal Services and Supplies:			
Full-time Permanent..................	14	16	16
Other................................	4	3	3
Total................................	18	19	19
PERSONNEL COMPENSATION...............	$ 741,799	$ 921,000	$938,000
Personnel Benefits:			
Health Benefits......................	15,841	17,000	17,000
Life Insurance.......................	1,746	3,000	3,000
Retirement...........................	52,489	56,000	60,000
Social Security Tax (FICA)...........	6,823	9,000	10,000
Medicare Benefits....................	7,318	10,000	11,000
TOTAL PERSONNEL BENEFITS.............	84,217	95,000	101,000
TOTAL PERSONAL SERVICES AND BENEFITS............................	826,016	1,016,000	1,039,000
Contractual Services and Supplies:			
Travel and Transportation of Persons..............................	44,281	40,000	41,000
Transportation of Things.............	2,165	5,000	5,000
Rent, Communications and Utilities...........................	272,792	299,000	300,000
Printing and Reproduction............	-0-	2,000	2,000
Other Services.......................	54,280	67,000	68,000
Supplies and Materials...............	8,889	9,000	9,000
TOTAL CONTRACTUAL SERVICES AND SUPPLIES.........................	382,407	422,000	425,000
Acquisition of Capital Assets:			
Equipment............................	1,708	2,000	2,000
TOTAL EXPENSES.......................	1,210,131	1,440,000	1,466,000
Savings..............................	132,869	-0-	-0-
ACTUAL, AUTHORIZATION, AND ESTIMATE..............................	1,343,000	1,440,000	1,466,000

Personnel Compensation

	1985 Actual	1986 Budget Estimate	1986 Current Estimate	1987 Estimate	Increase or Decrease(-)
Full-Time Equivalent (FTE) Positions:					
Full-Time Permanent..	14	19	16	16	-0-
Other................	4	-0-	3	3	-0-
Total FTE..........	18	19	19	19	-0-
Net Salary................	741,799	894,000	921,000	938,000	17,000

The 1987 estimate of $938,000 provides for administrative staffing to remain at the same level as 1986. The increase of $17,000 is provided for within grade increases in salaries.

Personnel Benefits

	1985 Actual	1986 Budget Estimate	1986 Current Estimate	1987 Estimate	Increase or Decrease(-)
Health....................	$15,841	$24,000	$17,000	$17,000	-0-
Life Insurance............	1,746	3,000	3,000	3,000	-0-
Retirement................	52,489	50,000	56,000	60,000	4,000
Social Security Taxes (FICA)..............	6,823	8,000	9,000	10,000	1,000
Medicare Benefits.........	7,318	9,000	10,000	11,000	1,000
Total................	84,217	94,000	95,000	101,000	6,000

Health Benefits

The 1987 estimate of $17,000 provides for the Corporation's (Employer) share of the cost of the Federal Employee's Helath Benefits Act of 1959 (Public Law 86-382).

Life Insurance

The 1987 estimate of $3,000 represents the Corporation's (Employer) portion of the premiums payable under the Federal Employee's Group Life Insurance Act of 1954; it is based upon the number of employees expected to be on the payroll in fiscal 1987.

Retirement

The 1987 estimate of $60,000 provides for the Corporation's (Employer) share of mandatory contributions to the Civil Service Retirement and Disability Fund pursuant to Section 102(A) of the Public Law 91-93, approved October 20, 1969; it is at the rate of 7% of employees' basic salaries. The figure is based upon the number of employees expected to be on the payroll in fiscal 1987.

Social Security Tax

The 1987 estimate of $10,000 provides for the payment of the Corporation's (Employer) share of contributions pursuant to Section 278 of Public Law 97-248, approved September 3, 1982.

Medicare Benefits

The 1987 estimate of $11,000 provides for the Corporation's (Employer) share of contributions pursuant to Section 278 of Public Law 97-248, approved September 3, 1982. Section 278 amended the Federal Insurance Contribution Act to provide Medicare coverage to Federal employees and to apply the hospital insurance tax to Federal employment.

Travel and Transportation of Persons

1985 Actual	1986 Budget Estimate	1986 Current Estimate	1987 Estimate	Increase or Decrease(-)
$44,281	$36,000	$40,000	$41,000	$ 1,000

The estimate provides for attendance of the Director and his top supervisors at meetings with State savings and Loan supervisors, directors, and officers of the Federal Home Loan Banks, and savings and loan associations.

Transportation of Things.

1985 Actual	1986 Budget Estimate	1986 Current Estimate	1987 Estimate	Increase or Decrease(-)
$2,165	$8,000	$5,000	$5,000	-0-

This item provides for the cost of shipment of supplies and equipment to and from the Corporation.

Rent, Communications and Utilities

	1985 Actual	1986 Budget Estimate	1986 Current Estimate	1987 Estimate	Increase or Decrease(-)
Rent and Utilities:					
Office Space..............	$166,178	$188,000	$188,000	$188,000	-0-
Equipment.................	7,548	8,000	10,000	10,000	-0-
Subtotal.............	173,726	196,000	198,000	198,000	-0-

Communications:

Local Telephone Services.............	49,575	35,000	$ 50,000	$ 51,000	$ 1,000
Long Distance Calls.......	44,658	41,000	44,000	44,000	-0-
Teletype and Telegrams............	40	1,000	1,000	1,000	-0-
Postage....................	4,793	6,000	6,000	6,000	-0-
Subtotal.............	99,066	83,000	101,000	102,000	1,000
GRAND TOTAL...............	272,792	279,000	299,000	300,000	1,000

The 1987 estimate of $188,000 for office space allows for intra-agency reimbursement to the Federal Home Loan Bank Board for space occupied by the FSLIC at an average cost of $25 per square foot.

Equipment rental costs of $10,000 provides for the rental of copying equipment used by the Corporation.

Printing and Reproduction

1985 Actual	1986 Budget Estimate	1986 Current Estimate	1987 Estimate	Increase or Decrease(-)
-0-	$4,000	$2,000	$2,000	$ -0-

The 1987 estimate of $2,000 provides for the cost of contractual printing and reproduction.

Other Services

	1985 Actual	1986 Budget Estimate	1986 Current Estimate	1987 Estimate	Increase or Decrease(-)
Fidelity Bond.............	$ -0-	$ 3,000	$ 2,000	$ 2,000	$ -0-
Training Program..........	5,174	16,000	12,000	12,000	-0-
Portfolio Management Ser..	12,400	15,000	14,000	15,000	1,000
Health Program............	2,000	2,000	2,000	2,000	-0-
GAO Audit.................	33,000	33,000	33,000	33,000	-0-
Security Investigations...	-0-	9,000	2,000	2,000	-0-
Other.....................	1,706	3,000	2,000	2,000	-0-
Total.....................	54,280	81,000	67,000	68,000	1,000

Supplies and Materials

1985 Actual	1986 Budget Estimate	1986 Current Estimate	1987 Estimate	Increase or Decrease(-)
$8,889	$4,000	$9,000	$9,000	$ -0-

The estimate provides for the cost of office supplies, books, binders and expendable materials.

Acquisition of Capital Assets

	1986			
1985 Actual	Budget Estimate	Current Estimate	1987 Estimate	Increase or Decrease(-)
$1,708	$4,000	$2,000	$2,000	-0-

Provision is made in this item for the purchase of non-capitalized items of furniture, fixtures, and equipment.

Authorization Language

Except for the change in the limitation amount for 1987, there are no differences between the current language and that enacted for 1986.

Federal Home Loan Mortgage Corporation

The Federal Home Loan Mortgage Corporation (Freddie Mac) is a government-chartered corporation created under the Emergency Home Finance Act of 1970. Congress chartered Freddie Mac to provide mortgage lenders with an organized national secondary market into which they could sell conventional mortgage loans, so lenders can obtain needed funds to meet new demands for mortgages. Freddie Mac serves as a conduit to facilitate the flow of investment dollars from capital market investors to mortgage lenders, and ultimately to homebuyers in the form of more affordable mortgage.

Freddie Mac is a publicly-chartered corporation whose preferred stock is owned by savings institutions across the nation. Freddie Mac is managed by a Board of Directors, the members of the Federal Home Loan Bank Board, that is appointed by the President with consent of the Senate. All of Freddie Mac's expenses are paid from its own income, and no Federal budget authority or outlays have ever assisted in its mission.

After purchasing mortgage loans from individual mortgage lenders, Freddie Mac groups a portion of the mortgages into pools ranging from $1 million to $100 billion which are sold in the form of mortgage pass-through securities, called Mortgage Participation Certificates (PCs). A PC represents an undivided ownership interest in a pool of residential mortgage loans as purchased by Freddie Mac. The timely payment of interest and full return of principal on mortgages underlying the PCs is guaranteed solely by Freddie Mac. This guarantee is backed by corporate reserves to cover default losses on individual mortgages and not by the Federal Home Loan Bank System or the full faith and credit of the U.S. Government.

Freddie Mac offers lenders the opportunity to either sell their mortgages for cash or "swap" them for PCs. "Swap" PCs enable lenders to restructure their portfolios by offering these PCs directly to investors, using them as collateral for borrowing or retaining them for sale later. This provides lenders with greater liquidity when the need for more mortgage credit arises. The conventional mortgage PC is one example of how Freddie Mac has perceived a need within the marketplace, committed its resources to identifying the need and developed a mortgage program to meet the need.

Freddie Mac's success as a pathfinder for the mortgage finance industry is evidenced in another development, the Collateralized Mortgage Obligation (CMO), introduced in 1983. The CMO is a bond of several classes secured by a pool of mortgages. The cash flow from the principal payments on the mortgage collateral is directed through a multi-tiered maturity structure - short, intermediate and long- from which investors may choose. The CMO has been successfully replicated by others in the marketplace, and as a result, has provided another restructuring tool for thrifts as well as attracted new investors and capital to mortgage finance. Nearly 80 percent of the $29.4 billion in CMOs issued since 1983 through September 1985 represent issuances by others in the marketplace besides Freddie Mac.

In 1984, Freddie Mac recognized the increasing popularity of another mortgage instrument when it introduced the first mortgage pass-through security exclusively backed by the 15-year single family mortgage instrument. Freddie Mac has sold over $4.3 billion of this new security since introduction.

In 1985, the first pass-through security exclusively backed by newly originated multifamily mortgages was introduced to the marketplace by Freddie Mac. The multifamily PC represents Freddie Mac's on-going commitment to providing additional financing for multifamily housing through the sale of multifamily mortgage pass-through securities. The introduction of the multifamily PC also represents the first time a mortgage pass-through security was sold exclusively to international investors.

Another significant development in 1985 occurred when the CMO was offered for the first time on the international market, representing Freddie Mac's commitment to finding new ways to tap capital markets and providing additional mortgage credit to America's home buying public.

The forecast data contained in this material has been developed on the basis of certain economic assumptions that are reviewed and revised periodically. The estimates are subject to change at any time and are not necessarily indicative of actual data. In fact, the estimates will likely turn out to be incorrect, and are provided only as a result of a specific request. Consequently, the estimates should not be construed as an official forecast of the corporation's future position.

According to accounting practices for private corporations, the mortgages in the pools of loans supporting the mortgage pass-through securities are considered to be owned by the holders of these securities. Consequently, on the books of Freddie Mac, these mortgages are not considered assets. However, the concepts of the budget of the United States Government consider these mortgages and mortgage pass-through securities to be assets and liabilities, respectively, of Freddie Mac. For the purposes of this document, therefore, they are presented as assets and liabilities in the accompanying schedules. On the Status of Direct Loans schedule for mortgage pass-through securities, the items labeled "New loans" and "Recoveries: Repayments and prepayments" are budgetary terms. However, from Freddie Mac's perspective, these amounts represent "Sales of PCs" and "Amounts passed through to PC holders," respectively.

A comparative summary of conditions as of September 30, 1985 and 1984 is presented on page G-3, and a statement of income and retained earnings for the fiscal years 1985 and 1984 is presented on page G-4.

Federal Home Loan Mortgage Corporation
Statements of Income and Retained Earnings
(In Thousands)

	For the 12 Months Ended	
	9/30/85	9/30/84
INCOME		
Interest and Discount on Mortgage Loans	$1,442,804	$1,079,236
Interest on Investments	254,613	152,623
Other Income	25,415	16,471
Total Income	1,722,832	1,248,330
EXPENSES		
Interest on Borrowings and Related Costs	1,237,091	882,341
Provision for Uninsured Principal Losses	72,754	54,809
Administrative Expenses	79,491	63,948
Total Expenses	1,389,336	1,001,098
INCOME BEFORE INCOME TAXES AND EXTRAORDINARY ITEM	333,496	247,232
INCOME TAXES	(120,472)	-
INCOME BEFORE EXTRAORDINARY ITEM	213,024	247,232
EXTRAORDINARY ITEM: GAIN ON DEBT EXCHANGE, NET OF TAXES	9,877	-
NET INCOME	222,901	247,232
RETAINED EARNINGS, BEGINNING OF YEAR	359,026	189,294
TRANSFER TO PARTICIPATING PREFERRED STOCK	(50,000)	-
DIVIDENDS PAID	(46,888)	(77,500)
RETAINED EARNINGS, END OF YEAR	$ 485,039	$ 359,026

Federal Home Loan Mortgage Corporation
Statements of Condition
(In Thousands)

	9/30/85	9/30/84	Increase or (Decrease)
CASH	$ 106,988	$ 26,249	$ 80,739
INVESTMENTS			
U.S. Securities	582,519	865,922	(283,403)
Other Securities	2,547,100	1,119,607	1,427,493
Total Investments	3,129,619	1,985,529	1,144,090
MORTGAGE LOANS			
Insured or Guaranteed by FHA or VA	828,881	895,798	(66,917)
Conventional Mortgage Loans	12,259,395	8,550,953	3,708,442
Subtotal	13,088,276	9,446,751	3,641,525
Less: Unamortized Discount and Allowance for Losses	(471,378)	(325,427)	(145,951)
Total Mortgage Loans	12,616,898	9,121,324	3,495,574
ACCOUNTS RECEIVABLE	572,334	620,993	(48,659)
OTHER ASSETS	649,068	384,142	264,926
Total Assets	$ 17,074,907	$12,138,237	$ 4,936,670
ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	$ 2,741,919	$ 1,569,826	$ 1,172,093
BORROWINGS FROM THE PUBLIC			
Mortgage-Backed Bonds	4,683,885	3,176,009	1,507,876
Other	8,914,064	6,833,376	2,080,688
Total Borrowings	13,597,949	10,009,385	3,588,564
CONTINGENCIES			
Mortgage Participation Certificates	90,756,323	62,633,304	28,123,019
Guaranteed Mortgage Certificates	1,232,700	1,398,600	(165,900)
Less: Underlying Mortgage Loans Sold Including Principal Collections Held in Trust	(91,989,023)	(64,031,904)	(27,957,119)
	-	-	-
STOCKHOLDERS' EQUITY			
Common Stock	100,000	100,000	-
Preferred Stock	150,000	-	150,000
Capital in Excess of Par Value	-	100,000	(100,000)
Retained Earnings	485,039	359,026	126,013
Total Stockholders' Equity	735,039	559,026	176,013
Total Liabilities and Stockholders' Equity	$17,074,907	$12,138,237	$ 4,936,670

THURSDAY, FEBRUARY 20, 1986.

DEPARTMENT OF THE TREASURY

OFFICE OF REVENUE SHARING

WITNESSES

MICHAEL F. HILL, DIRECTOR, OFFICE OF REVENUE SHARING, U.S. DEPARTMENT OF THE TREASURY

ROBERT W. RAFUSE, JR., DEPUTY ASSISTANT SECRETARY (STATE AND LOCAL FINANCE)

KENT A. PETERSON, DEPUTY DIRECTOR, OFFICE OF REVENUE SHARING

MARY BETH SHAW, DIRECTOR (FINANCIAL MANAGEMENT)

JOHN F. BENTON, BUDGET OFFICER (FINANCIAL MANAGEMENT)

Mr. **BOLAND**. The committee will come to order.

We are delighted to welcome today the representatives of the Office of the Secretary of the Treasury, and specifically the Office of Revenue Sharing, which has a responsibility for the distribution of this program. It has since its inception in 1972, done an outstanding job. Thirty-nine thousand communities are involved in this. This Committee has always commended the Office of Revenue Sharing for the way in which it has handled this particular program. This may be your last hurrah, though?

Mr. **HILL**. I think so, sir.

FY 1987 BUDGET REQUEST

Mr. **BOLAND**. The request this year is for $5,560,000 for salaries and expenses. How much of a reduction is there with respect to the Gramm-Rudman-Hollings Act? Did you take a reduction as a result of the 4.3 percent reduction?

Mr. **HILL**. Yes, $332,000.

Mr. **BOLAND**. There is no request, of course, for the regular revenue sharing program in 1987. That is a matter that is going to be resolved in some other committee anyhow. The general revenue sharing expires the end of this year. There has to be a reauthorization for it, and so we await the pleasure of the Legislative Committee and also the Congress itself. Why don't you go ahead with your statement, Mr. Hill.

Mr. **HILL**. Thank you very much, Mr. Chairman. If you don't mind, I would like to introduce the people at the table, most of whom you know. This is Robert W. Rafuse, who is the Deputy Assistant Secretary.

Mr. **BOLAND**. How long have you been here, Bob? You don't change at all.

Mr. **Hill**. You met Mary Beth Shaw last year. The new person at the table, although not new to this program, is Mr. John Benton, who is the budget officer for the Financial Management Division.

Mr. **Boland**. When did you come aboard?

Mr. **Benton**. I have actually been working on the revenue-sharing program since 1981 and was named to my present job in August of this last year.

Mr. **Boland**. Have you enjoyed it?

Mr. **Benton**. Yes, sir.

Mr. **Boland**. We will keep you enjoying it. Do you have any others?

Mr. **Hill**. No, sir, that is all. I may call upon some members of the staff, if you don't mind.

Mr. **Boland**. I think you have all the answers, you always do.

Mr. **Hill**. I hope so.

OPENING STATEMENT

Mr. **Boland**. Do you want to go ahead with your statement?

Mr. **Hill**. Yes, if you don't mind, since it is very short.

Mr. **Boland**. It is short.

Mr. **Hill**. I will just read a few paragraphs, and then we will be ready for questions and answers.

"The Office of Revenue Sharing, a unit within the Office of the Secretary of the Treasury, administers the Revenue Sharing Program. The program was established by the State and Local Fiscal Assistance Act of 1972 and reauthorized in 1976, 1980, and 1983. Payments to local governments under the program are currently authorized through September 30, 1986. The 1986 appropriation enacted for revenue sharing was $4.185 billion; this level is reduced by 4.3 percent or about $180 million under the Gramm-Rudman-Hollings sequestration.

"The Administration is proposing to rescind this year's final quarterly payment to local governments. This proposal, if enacted by the Congress, would result in a reduction of approximately $760 million in the amount appropriated for the trust fund for fiscal year 1986 and would reduce 1987 outlays by a like amount."

I will skip over the next section because it just talks about the functions of this office, and this Subcommittee is very familiar with those.

"As you know, the Administration strongly opposes the continuation of revenue sharing payments to local government after fiscal year 1986. Consequently, no budget authority is being requested for the trust fund for fiscal year 1987.

In the current fiscal environment, the Federal Government no longer has revenues to share with local governments. The shift of local tax bases to more broad-based revenue sources, like income and sales taxes rather than property taxes, should enable local governments to compensate for the termination of revenue sharing payments. The Administration strongly believes that these revenue source allocation choices are more appropriately made at the local level rather than continuing to borrow money at the federal level to make grants to these localities.

Mr. Chairman, today we appear before you to request $5,560,000 for fiscal year 1987 for salaries and expenses and an authorized level of 135 permanent positions. We anticipate the need for 75 FTE workyears for fiscal year 1987 to oversee the orderly termination of agency activities."

Mr. **Boland**. The entire statement will be included.

[The statement of Mr. Hill follows:]

STATEMENT OF MICHAEL F. HILL
DIRECTOR, OFFICE OF REVENUE SHARING
U.S. DEPARTMENT OF THE TREASURY
BEFORE THE
SUBCOMMITTEE ON HUD - INDEPENDENT AGENCIES
HOUSE APPROPRIATIONS COMMITTEE

Mr. Chairman and Members of the Subcommittee, I am pleased to appear before you today to discuss the appropriation request for fiscal year 1987 of the Treasury Department, Office of Revenue Sharing.

Appearing with me are:

Robert W. Rafuse, Jr., Deputy Assistant Secretary (State and Local Finance)
Kent A. Peterson, Deputy Director, Office of Revenue Sharing
Mary Beth Shaw, Director (Financial Management)
John F. Benton, Deputy Director (Financial Management)

In addition, I have with me several key members of the staff of the Office of Revenue Sharing upon whom I may call for information when appropriate.

Program Mission and Responsibilities

The Office of Revenue Sharing, a unit within the Office of the Secretary of the Treasury, administers the Revenue Sharing Program. The Program was established by the State and Local Fiscal Assistance Act of 1972 and reauthorized in 1976, 1980, and 1983. Payments to local governments under the Program are currently authorized through September 1986. The 1986 appropriation for Revenue Sharing was $4.185 billion; this level is reduced by 4.3% or about $180 million under the Gramm-Rudman-Hollings sequestration.

The Administration is proposing to rescind this year's final quarterly payment to local governments. This proposal, if enacted by the Congress, would result in a reduction of approximately $760 million in the amount appropriated for the Trust Fund for fiscal year 1986 and would reduce 1987 outlays by a like amount.

The Revenue Sharing Program has provided general fiscal assistance, distributed by statutory formulas, to approximately 39,000 general-purpose local governments.

The resources of the Office of Revenue Sharing have been primarily devoted to two major tasks: making payments and ensuring compliance with the nondiscrimination, audit, and public-participation standards of the Revenue Sharing Act. The first task

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has included obtaining and reviewing the data used in the allocation formulas; computing allocations; making, controlling, and documenting payments; and providing for the collection and control of required forms and information.

The second task involved responding to individuals' complaints as well as judicial and administrative holdings of discrimination, resolution of cases in which public-hearing and notice requirements may not have been met, and ensuring that recipient governments receiving payments of $25,000 or more per year have completed required audits and that all recipients meet minimum standards of accountability for their Revenue Sharing expenditures.

The Office of Revenue Sharing has also conducted a limited program of technical assistance and information to assist recipient governments and the public in understanding their responsibilities and rights under the Act. Information and assistance concerning the Revenue Sharing Program have also been provided to policy-making officials in other Federal agencies and to Members of Congress.

Legislative Proposal

As you know, the Administration strongly opposes the continuation of Revenue Sharing payments to local governments after FY 1986. Consequently, no budget authority is being requested for the Trust Fund for FY 1987.

In the current fiscal environment, the Federal government no longer has revenues to share with local governments. The shift of local tax bases to more broad based revenue sources, like income and sales taxes rather than property taxes, should enable local governments to compensate for the termination of Revenue Sharing payments. The Administration strongly believes that these revenue source allocation choices are more appropriately made at the local level rather than continuing to borrow money at the Federal level to make grants to these localities.

Office of Revenue Sharing Salaries and Expenses

Mr. Chairman, today we appear before you to request $5,560,000 for FY 1987 for Salaries and Expenses and an authorized level of 135 permanent positions. We anticipate the need for 75 FTE workyears for FY 1987 to oversee the orderly termination of agency activities.

My colleagues and I would be happy to respond to any questions you may have.

Mr. Hill. We will be happy to answer any questions.

PROPOSED RESCISSION

Mr. Boland. As you have indicated, the administration is proposing to rescind $759,975,000 of the 1986 appropriation for general revenue sharing. The rescission would completely eliminate the fourth quarter payment which the 1986 Appropriation Act has already reduced by $381,700,000. This action is proposed in accordance with the Impoundment Control Act of 1974, in a message from the President dated February 5, 1986. The message is printed as House Document 99-161. We will place the Rescission Proposal 86-68 in the record at this point.

[The rescission proposal follows:]

DEPARTMENT OF THE TREASURY

Office of Revenue Sharing

Local government fiscal assistance trust fund

Notwithstanding the provisions of 31 U.S.C. 6701-6724, payments to local governments from the Local Government Fiscal Assistance Trust Fund shall not exceed $3,425,025,000, and the amount provided to the trust fund by Public Law 99-160 shall be reduced by $759,975,000 through the elimination of such payments for the final quarter of the entitlement period beginning October 1, 1985 and ending September 30, 1986. The $759,975,000 is hereby rescinded, and shall be transferred to the General Fund of the Treasury.

Rescission Proposal No: R86-68

PROPOSED RESCISSION OF BUDGET AUTHORITY
Report Pursuant to Section 1012 of P.L. 93-344

AGENCY: Department of the Treasury	New budget authority..... $4,185,000,000 (P.L. 99-160)
Bureau: Office of Revenue Sharing	Other budgetary resources 54,349,000
Appropriation title and symbol: Local government fiscal assistance trust fund 1/ 20X8111	Total budgetary resources 4,239,349,000 Amount proposed for rescission $ 759,975,000
OMB identification code: 20-8111-0-7-851	Legal authority (in addition to sec. 1012): ☐ Antideficiency Act ☐ Other________
Grant program: ☒ Yes ☐ No	
Type of account or fund: ☒ Annual ☐ Multiple-year ________ (expiration date) ☐ No-Year	**Type of budget authority:** ☒ Appropriation ☐ Contract authority ☐ Other________

Justification: This account makes payments to local governments under the General Revenue Sharing (GRS) program. The program was first enacted in 1972 to distribute the resources raised by the highly responsive Federal tax structure to states and localities, which in general had less flexible tax systems. Since enactment of GRS, the relative fiscal conditions of Federal and local governments have changed dramatically. Local governments, in the aggregate, have gone from deficit to surplus conditions while the Federal government deficit has deepened substantially. The Federal government can no longer afford to fund a program which does not serve a targeted national purpose; GRS does not encourage localities to shift or increase spending on national priorities. The Administration proposes to eliminate the final quarterly payment before the program's authorization expires at the end of 1986. This rescission will result in a 1987 outlay savings of $760 million and will help achieve the goals of the Balanced Budget and Emergency Deficit Control of 1985.

Estimated Program Effect: The level of funding requested will provide three full General Revenue Sharing Payments to localities during 1986 before the program's authorization expires at the end of FY 1986. The rescission eliminates the final quarterly payment, which the 1986 appropriation act had already reduced by $382 million.

Outlay Effect (in thousands of dollars):

1986 Outlay Estimate		Outlay Savings					
Without Rescission	With Rescission	1986	1987	1988	1989	1990	1991
4,433,483	4,433,483	---	759,975	---	---	---	---

1/ This account is the subject of deferrals in 1986 (D86-30, D86-31) and in 1985 (D85-12, D85-13).

PROPOSED RESCISSION

Mr. **Boland**. What do you think the impact of this particular rescission is going to have upon local governments? I would think it would be a severe one. What is your reaction on it?

Mr. **Hill**. I agree with you. The impact, in terms of revenue sharing payments, will probably be rather severe. The more time we can give the local governments to adjust to the reality of a situation like this, I think the better off we will all be.

GRAMM-RUDMAN-HOLLINGS SEQUESTRATION

Mr. **Boland**. In the rescission proposal, under Estimated Program Effects, the ledger indicates that the level of funding proposed for 1986 will provide three full general revenue sharing payments to localities. That may not be true. Would not the Gramm-Rudman sequestration further reduce 1986 general revenue sharing payments by $179,955,000?

Mr. **Hill**. Yes, sir, you are correct.

Mr. **Boland**. Why does the table on page 5 of the justification not show a minus $179,955,000 in reductions under the P.L. 99-171 column?

Mr. **Hill**. I think that is because of the Gramm-Rudman Act, which prohibits sequestration from reducing the budget authority of trust funds. There is a section in the Act which grants special treatment to trust fund accounts; thus, it is shown in this document and other documents from the Administration as an outlay impact only, and not as a budget authority reduction. So this presentation format is an artifact of that process.

Mr. **Boland**. It may be an artifact, but it is a lot of dollars. Can it be said that with that reduction under Gramm-Rudman, that the communities are receiving their full share of the three payments?

Mr. **Hill**. They obviously won't. They will be receiving approximately $180 million less than what this Committee originally appropriated, which was $4,185,000,000.

Mr. **Boland**. So in a sense, they may not receive the full payments for the three periods.

Mr. **Hill**. You are correct.

GENERAL FUND OF TREASURY

Mr. **Green**. Just so I understand, that money, because of that Gramm-Rudman provision you have cited, just sits there in the Trust fund. It doesn't fall back into the general fund at this point?

Mr. **Hill**. You raise an interesting issue, and we are looking into the situation.

Mr. **Green**. Would you explain what you are looking at?

Mr. **Hill**. Yes. Obviously, with the proposed termination of the revenue sharing program, it makes virtually no sense to leave approximately $180 million languishing, and we are exploring ways to get that money back into the general fund of the United States Treasury. There is a provision in the Revenue Sharing Act which gives the Secretary the authority to transfer funds back to the general fund of the Treasury that he decides are not necessary for distribution. We haven't yet fully researched all of the legal issues.

Mr. **Boland**. The 45 day impoundment period permitted by the rescission proposal runs out in mid-April?

Mr. **Hill**. Yes sir.

QUARTERLY PAYMENTS

Mr. **Boland**. And Congress might very well not approve that rescission of $759,975,000. So, if the funds are not rescinded, which quarterly payment do you plan to reduce because of the sequestration of $179,955,000?

Mr. **Hill**. Right now the plans are to impact the third quarter's payment, which is July. However, if the rescission action is not passed by the Congress—in other words, if it dies—I will explore the possibility of trying to impact the fourth quarterly payment. In other words, I am well aware of the concern that you expressed when the revenue sharing trust fund was originally reduced. I read the debate that took place. One of your concerns was to give governments as much time as possible to adjust to a reduced funding level. If I can do that by reducing the fourth quarterly payment, I will try to do so.

Such an action, of course, has an impact on 1987 outlays. 1987, from everything I have read, may be a more difficult period than what we are going through right now, and it may also be that such a reduction to the fourth quarter will not occur. What we are trying to do in this entire process, Mr. Chairman, is to give the governments as much time as we possibly can under the existing scenario to adjust to any possible reductions.

Mr. **Boland**. Do you intend to make a full second quarterly payment in April?

Mr. **Hill**. Yes sir.

FEDERAL/STATE RELATIONS

Mr. **Boland**. Studies of federal/state fiscal relations were mandated by the Congress. A report was made on September 30, 1985 to the President and to the Congress. What was the total cost of the studies?

Mr. **Hill**. $508,000, I believe. Is that correct, Mr. Rafuse?

Mr. **Rafuse**. It depends on how one calculates the cost. We estimate $1.5 million. Of that, in terms of additional resources, in the sense of funds that were committed for contracts that would not have been let if there hadn't been studies, about $500,000.

Mr. **Boland**. Can you give us an estimate of what the total federal cost of the studies was?

Mr. **Hill**. That was the million and a half.

Mr. **Boland**. Is there any particular cost attributed or charged to the Office of General Revenue Sharing?

Mr. **Hill**. That was the $508,000.

STUDY CONCLUSIONS

Mr. **Boland**. Is there anything interesting about the studies? Everybody is smiling.

Mr. **Rafuse**. I am not the person to ask whether there was anything interesting. We could talk about it all day. I think there were a number of interesting and new findings and ideas that came out of the studies. Among them are a number of what are potentially better estimates of fiscal capacity, a key variable in grant formulas. That is being given consideration now in the process of discussions of whether revenue sharing is reauthorized.

I think the measure that we referred to as total taxable resources has been incorporated in a bill that Congressman McEwen has introduced involving changes in the formula by which revenue sharing payments will be allocated. That is a example of the kind of issue—the reexamination of the concept and measurements of fiscal capacity—that Congress directed us to look at. It is one of the areas where we came up with something new.

Mr. **Boland**. What personnel actually conducted the studies?

Mr. **Rafuse**. The core were the personnel in the Office of State Finance, not part of the Office of Revenue Sharing. But in addition, I can say there were people from the General Accounting Office, Advisory Commission on Intergovernmental Relations, and the Census Bureau. Many researchers were involved.

Mr. **Boland**. I am reading a note here indicating that the general conclusion of the studies is that, almost without exception, the outlook for the finances of the state/local sector during the next five years is favorable. The outlook is certainly brighter than that for the Federal Government. Is there any disagreement with that conclusion?

Mr. **Rafuse**. No, I think not.

PROGRAM FUNDING

Mr. **Boland**. You are requesting a FY 1987 appropriation of $5,560,000 for the Salaries and Expense account for 75 FTE to phase out the program. The amount is $1,822,000 less than the $7,$382,000 that will be available in FY 1986 after the Gramm-Rudman sequestration. How much money would be needed for the salaries and expenses account in 1987 if the general revenue sharing is continued?

Mr. **Hill**. In basically the same manner? In other words, just an extension of the existing program?

Mr **Boland**. And how many FTEs would be needed in 1987 if the program is continued?

Mr. **Hill**. We would need about 135 authorized and about 130 full time equivalent FTEs.

Mr. **Boland**. If the program is not continued after FY 1986, would there be any need for staff after FY 1987?

Mr. **Hill**. Yes. Let me answer that this way, if you don't mind. There is a piece of legislation to terminate the program pending before the Congress, and it contains a few technical amendments which would allow this office to balance and close the trust fund by the end of fiscal year '87. Currently, the Act provides governments with the opportunity to challenge their data for a full year after the close of the entitlement period. One of the technical amendments in that legislation addresses the need to reduce that time limit so that we can close the Trust Fund next year. If that does not pass, the answer to your question is yes, there will need to be a small staff, no more than six to eight people probably, in Treasury, who can process the challenges that come in after we depart. They would also possibly make a final payment based on the results of those challenges. It would be a small staff, but to answer your question honestly, there would be a——

Mr. **Boland**. You have an estimate of 115 FTEs to be utilized by your office in fiscal year 1986. How many employees are currently aboard as of the latest date?

Mr. **Hill**. One hundred ten.

Mr. **Boland**. How much was obligated for personnel compensation and benefits as of February 1st, 1986? You may supply that for the record, if you would.

Mr. **Hill**. Fine, we will do that.

[The information follows:]

Compensation and Benefits

The amount obligated for compensation and benefits in the Revenue Sharing program through January 31, 1986 is a total of $1,719,891. This includes $1,514,644 for compensation and $205,247 for benefits.

ATTRITION

Mr. **Boland**. The budget assumes $5,309,000 for personnel compensation and benefits in 1986. Last year there was some discussion of the difficulties that the Office of Revenue Sharing was experiencing in recruiting and retaining personnel. With the proposed termination of the program, that, of course, is understandable. Does the office continue to experience difficulty in recruiting and retaining personnel?

Mr. **Hill**. Yes, sir.

Mr. **Boland**. Is the office losing many employees now?

Mr. **Hill**. The attrition rate is about 13 as of January. The entire year last year was 29, so yes, it is about double. If it continues at this rate, it will be significantly higher.

Mr. **Boland**. At the end of fiscal year 1987 what will you do with the employees who are working on this program? Will they be absorbed by the Department of the Treasury?

Mr. **Hill**. I have had discussions with senior Treasury officials in the areas that could affect action on that particular point, and they have assured me that, as time passes on, every effort will be made to take care of revenue sharing employees, as vacancies occur in other parts of the Treasury Department, provided, of course, that those other agencies are not under severe budgetary restraints. So to the extent that they can, yes, and I think they will live up to that.

Mr. **Boland**. This program, since it was created, shows the total accumulated appropriation of about $82 billion over a period of time up to now, so we will place the table in the record showing the appropriation by year.

[The information follows:]

APPROPRIATION TABLE—PAYMENTS TO LOCAL GOVERNMENT FISCAL ASSISTANCE TRUST FUND [1]

[In thousands of dollars]

Fiscal year	Appropriation	Obligations	Outlays
1973 Actual	8,294,670	8,294,670	8,294,670
1974	6,054,780	6,054,780	6,054,780
1975	6,204,780	6,204,780	6,204,780
1976	6,354,780	6,354,780	6,354,780
Transition quarter	1,663,695	1,663,695	1,663,695
1977	6,654,780	6,654,780	6,654,780
1978	6,854,924	6,854,924	6,854,924
1979	6,854,924	6,854,924	6,854,924
1980	6,854,924	6,854,924	6,854,924
1981	4,569,949	4,569,949	4,569,949
1982	4,566,700	4,566,700	4,566,700
1983	4,566,700	4,566,700	4,566,700
1984	4,566,700	4,566,700	4,566,700
1985	4,566,700	4,566,700	4,566,700
Subtotal	78,629,006	78,629,006	78,629,006
1986 [2]	4,185,000	4,185,000	4,185,000
1987 Request			
Grand total	82,814,006	82,814,006	82,814,006

[1] Information shown in this table was extracted from the applicable schedules in the Budget (Appendices) of the United States Government. Prior to the 1983 Amendments, this was referred to as the Payments to State and Local Government Fiscal Assistance Trust Fund.

[2] Appropriation Level does not include the proposed rescission of $759,975 which would eliminate the fourth quarter payment from the Trust Fund.

The Reductions Pursuant to P.L. 99-177 (Gramm-Rudman-Hollings Act) are reflected only in the Trust Fund obligations and outlays. The Payments to Local Government Fiscal Assistance Trust Fund (reported here) is exempted from these reductions.

AVERAGE EMPLOYMENT

Mr. **Boland**. On page ORS-6, the object classification schedule shows that $539,000 was lapsed at the end of fiscal year 1985. It is also noted that the average employment in 1985 was nine less than the 132 estimated last year. What was the actual 1985 average employment for this office?

Mr. **Hill**. One hundred twenty-three.

Mr. **Boland**. Is there any reason why it was nine less than was estimated last year?

Mr. **Hill**. For the very reason that you raised earlier. We encountered a long delay and great difficulty in attracting people, as the word has gone out that we are on the way out.

CIVIL RIGHTS BACKLOG

Mr. **Boland**. The civil rights backlog at the end of 1984 was 874. What was the backlog in civil rights complaints at the end of 1985?

Mr. **Hill**. Eight hundred eight at the end of fiscal year 1985. That was the backlog, so we began '86 with 808.

Mr. **Boland**. What would you expect the backlog to be at the end of '86?

Mr. **Hill**. Four hundred sixty-one.

Mr. **Boland**. What will happen to the civil rights complaints if the program ends in FY 1986?

Mr. **Hill**. We are attempting to reduce that backlog by the end of the program to around 200 plus. Any cases that are remaining will be sent to another part of the Treasury Department.

Closing Remarks

Mr. **Boland**. Thank you very much. I know you have some problems down there. It is not an easy task for any one of you in that office. In any event, let me again emphasize the fact that we think the Office of Revenue Sharing has done an outstanding job in its distribution of funds, and the way it has conducted the program, with the paucity of employees for such a huge program.

Mr. **Hill**. Thank you very much.

Mr. **Boland**. I guess it is because of the expertise that Bob and Kent and others have brought to this program.

Mr. **Hill**. I agree.

Mr. **Boland**. We are glad to have you here, and have a nice weekend.

Mr. **Hill**. I thank this Committee for its judicious handling of Revenue Sharing. We appreciate it.

TABLE OF CONTENTS

FY 1987 CONGRESSIONAL SUBMISSIONS

DEPARTMENTAL SUMMARY MATERIAL

A. OFFICE OF REVENUE SHARING: SALARIES AND EXPENSES

B. PAYMENTS TO LOCAL GOVERNMENT FISCAL ASSISTANCE TRUST FUND

C. FY 1986 APPROPRIATION RESCISSION PROPOSAL

DEPARTMENT OF THE TREASURY
HIGHLIGHTS OF THE PRESIDENT'S FY 1987 BUDGET

The Congressional Subcommittees on HUD-Independent Agencies of the Committees on Appropriations review the following Treasury appropriations:

Office of Revenue Sharing, Salaries and Expenses
Payments to Local Government Fiscal Assistance Trust Fund

The FY 1987 request for these appropriations is $5,560,000, a net decrease of $3,426,847,200 from the FY 1986 authorized level. Outlays are estimated at $5,449,000. The employment levels requested with these funds for the Revenue Sharing, Salaries and Expenses activities are 135 permanent positions and 75 average positions.

Highlights by Account

Office of Revenue Sharing, Salaries and Expenses - $5,560,000

This level is a net decrease of $1,822,000 from the FY 1986 Authorized Level which includes the complete phase-out of the Salaries and Expenses account at the end of FY 1987 -- based on the termination of the General Revenue Sharing Program when the current authorization expires on September 30, 1986.

Payments to Local Government Fiscal Assistance Trust Fund - $ ---

This level is based on the termination of the General Revenue Sharing Program when the current authorization expires on September 30, 1986. The Administration strongly opposes futher reauthorization of the Program.

FY 1986 Appropriation Rescission Proposal - $-759,975,000

Included with this Budget Request and built into the FY 1986 Authorized Level is a request to rescind $759,975,000 of the FY 1986 Payments to Local Government Fiscal Assistance Trust Fund appropriation, and thereby eliminate the fourth quarter payment from the Trust Fund.

FY 1986 Appropriation Reductions Pursuant to P.L. 99-177

The FY 1986 Authorized Level includes the following Reductions Under the Gramm-Rudman-Hollings Act (P.L. 99-177):

Salaries and Expenses Appropriation	$ -332,000
Local Government Fiscal Assistance Trust Fund	$-179,955,000

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Impact of
FY 1986 Gramm-Rudman-Hollings Budget Reduction

- Description of impact on bureau programs: The Revenue Sharing Trust Fund will be cut by 4.3 percent like all domestic programs in FY 1986. The sequestration of $179,955,000 for the Gramm-Rudman-Hollings budget cut will be combined with a proposed rescission of the last quarter payment of $759,975,000. The salaries and expenses of the Office of Revenue Sharing are also affected, and $332,000 in budget authority will be sequestered in FY 1986 thereby reducing available funds to $7,382,000.

- Effect on Workload: The Office of Revenue Sharing was planning full recalculations of entitlements prior to the July and October payments in anticipation of squaring accounts by the final payment. The recalculations made necessary by the sequestration of funds and the rescission, if approved by the Congress, would not increase the workload of the office.

- Effect on services: The FY 1986 reduction in salaries and expenses will be taken from unanticipated surplus personnel funds ($332,000) and will have minimal operational impact on the services provided by the Office of Revenue Sharing.

- Effect on ability to fulfill bureau mission: The FY 1986 reduction in salaries and expenses will not appreciably affect the mission of the Office. The 4.3 percent reduction in the Revenue Sharing Trust Fund will result in smaller amounts of funds being distributed to local governments.

DEPARTMENT OF THE TREASURY
Summary of Budget Estimates for FY 1987
(Dollars in thousands)

	Appropriation FY 1985		Authorized Level FY 1986		Budget Estimate For FY 1987		Increase (+) or Decrease (-) for FY 1987					
							Total Changes		Program Changes		Other Changes	
	Avg. Pos.	Amount	Avg. Pos.	Amount	Avg. Pos.	Amount	Avg. Pos.	Amount	Avg. Pos.	Amount	Avg. Pos.	Amount
Office of Revenue Sharing: Salaries and Expenses	123	$ 7,841	115	$ 7,382	75	$5,560	-40	$ -1,822	-40	$ -1,822	---	$ ---
Payments to Local Government Fiscal Assistance Trust Fund	---	4,566,700	---	3,425,025	---	---	---	-3,425,025	---	-3,425,025	---	---
Total Treasury Accounts	123	$4,574,541	115	$3,432,407	75	$5,560	-40	$-3,426,847	-40	$-3,426,847	---	$ ---

DEPARTMENT OF THE TREASURY
Analysis of Changes FY 1987 Over FY 1986
(Dollars in thousands)

	Total	Office of Revenue Sharing, Salaries and Expenses	Payments to Local Government Fiscal Assistance Trust Fund
I. Program Changes:			
1. Based on the termination of the General Revenue Sharing Program when the current authorization expires on September 30, 1986 and complete phase-out of the Salaries and Expenses account by September 30, 1987	$-3,426,847	$-1,822	$-3,425,025
Total, Program Changes	-3,426,847	-1,822	-3,425,025
Total Decreases FY 1987 compared with Proposed Authorized Level	$-3,426,847	$-1,822	$-3,425,025

DEPARTMENT OF THE TREASURY
Analysis of 1986 Appropriation Level
(Dollars in thousands)

	FY 1986 Appropriation Act	Appropriation Rescission Proposal	Reductions Under P.L. 99-177	Proposed Authorized Level, FY 1986
Office of Revenue Sharing:				
Salaries and Expenses	$ 7,714	---	$-332	$ 7,382
Payments to Local Government Fiscal Assistance Trust Fund	4,185,000	$-759,975	---	3,425,025
Total Treasury Accounts	**$ 4,192,714**	**$-759,975**	**$-332**	**$3,432,407**

DEPARTMENT OF THE TREASURY
Comparative Statement of Average Positions, Obligations, Appropriations, and Expenditures by Major Organizational Unit for Fiscal Years 1985 - 1987
(Dollars in thousands)

Bureau and Appropriation	Actual 1985	Estimate 1986	Estimate 1987
Office of Revenue Sharing:			
Salaries and Expenses:			
Average Positions	123	115	75
Personnel Compensation	4,447	4,459	3,068
All Other Obligations	2,855	2,923	2,492
Total Obligations	7,302	7,382	5,560
Unobligated Balance Available, Start of Year	---	---	---
Unobligated Balance Available, End of Year	---	---	---
Unobligated Balance Lapsing	539	---	---
Appropriation	7,841	7,382	5,560
Outlays	7,650	6,936	5,449
Payments to Local Government			
Fiscal Assistance Trust Fund:			
Total Obligations	4,566,700	3,425,025	---
Unobligated Balance Lapsing	---	---	---
Appropriation	4,566,700	3,425,025	---
Outlays	4,566,700	3,425,025	---
Total Treasury Accounts:			
Average Positions	123	115	75
Personnel Compensation	4,447	4,459	3,068
All Other Obligations	4,569,555	3,427,948	2,492
Total Obligations	4,574,002	3,432,407	5,560
Unobligated Balance Available, Start of Year	---	---	---
Unobligated Balance Available, End of Year	---	---	---
Unobligated Balance Lapsing	539	---	---
Appropriations	4,574,541	3,432,407	5,560
Outlays	4,574,350	3,432,407	5,449

DEPARTMENT OF THE TREASURY
Statement of Actual and Estimated Obligations by Object Classification for Fiscal Years 1985 - 1987
(Dollars in thousands)

	1985 Actual	% of Total	1986 Estimate	% of Total	1987 Estimate	% of Total	Increase or Decrease (+) or (-) 1987 compared with 1985	1986
1100 Personnel Compensation	$ 4,447	.1%	$ 4,459	.1%	$3,068	55.2%	$ -1,379	$ -1,391
1200 Personnel Benefits	506	*	518	*	393	7.1	-113	-125
1300 Benefits to Former Personnel	4	*	---	*	644	11.6	+640	+ 644
2100 Travel and Transportation of Persons	86	*	78	*	78	1.4	- 8	---
2200 Transportation of Things	---	*	---	*	---	*	---	---
2300 Rent, Communications and Utilities	850	*	906	*	531	9.5	-319	- 375
2400 Printing and Reproduction	82	*	120	*	---	---	-82	- 120
2500 Other Services	4,567,946	99.9	3,426,231	99.9	818	14.7	-4,567,128	-3,425,413
2600 Supplies and Materials	41	*	51	*	25	.4	- 16	- 26
3100 Equipment	40	*	44	*	3	.1	-37	- 41
Total Obligations	**$4,574,002**	**100.0%**	**$3,432,407**	**100.0%**	**$5,560**	**100.0%**	**$-4,568,442**	**$-3,426,847**

Reconciliation to appropriations:

	1985 Actual	1986 Estimate	1987 Estimate
Total Obligations	$4,574,002	$3,432,407	$5,560
Unobligated Balance Available, Start of Year	---	---	---
Unobligated Balance Available, End of Year	---	---	---
Unobligated Balance Lapsing	539	---	---
Total Appropriations	**$4,574,541**	**$3,432,407**	**$5,560**

* Less than 0.1 percent

Department of the Treasury
Explanation of Fiscal Year 1986 Decreases

Office of Revenue Sharing, Salaries and Expenses

Reductions and Savings		$-332,000
Maintaining FY 1986 program levels reduced by P.L. 99-177		$-332,000
11.0 Personnel Compensation	$-297,000	
12.0 Personnel Benefits	-35,000	
Total	$-332,000	

Payments to Local Government Fiscal Assistance Trust Fund

Reductions and Savings		$-759,975,000
Appropriation Rescission Proposal		-759,975,000
41.0 Grants, Subsidies, Contributions, etc.	$-759,975,000	

Salaries and Expenses, Office of Revenue Sharing

ANALYSIS OF AUTHORIZED LEVEL FOR FISCAL YEAR 1986
(Dollars in thousands)

	Permanent Positions	Average Positions	Amount
FY 1986 Appropriation Enacted by Congress	135	130	$7,714
Adjustments:			
(1) Rescission Proposal	---	---	---
(2) Reduction Under P.L. 99-177	---	---	-332
(3) Proposed Staffing Reduction	---	-15	---
Total Authorized Level for FY 1986	135	115	7,382
Estimate, FY 1987	135	75	$5,560

DIGEST OF BUDGET ESTIMATES BY ACTIVITIES FISCAL YEAR 1987

	Appropriation FY 1985		Authorized Level FY 1986		Budget Estimate FY 1987		Increase (+) or Decrease (-) for 1987					
							Total Changes		Program Changes		Other Changes	
	Ave. Pos.	Amount	Ave. Pos.	Amount	Ave. Pos.	Amount	Ave. Pos.	Amount	Ave. Pos.	Amount	Ave. Pos.	Amount
1. Legal and Support Services	23	$1,356	26	$1,766	15	$1,124	-11	$- 642	-11	$-642	---	$---
2. Operations and Technical Assistance	37	2,923	29	2,649	14	1,394	-15	-1,255	-15	-1,255	---	---
3. Monitoring and Enforcement	63	3,023	60	2,967	46	3,042	-14	+75	-14	+75	---	---
Unobligated Balance Available, Start of Year	---	---	---	---	---	---	---	---	---	---	---	---
Unobligated Balance Lapsing	---	539	---	---	---	---	---	---	---	---	---	---
Total Appropriation authorized level, and budget estimate	123	$7,841	115	$7,382	75	$5,560	-40	$-1,822	-40	$-1,822	---	---
Permanent positions established	(137)		(135)		(135)		(---)		(---)		(---)	

Salaries and Expenses, Office of Revenue Sharing

SUMMARY EXPLANATION OF CHANGES REQUESTED FOR FISCAL YEAR 1987
(Dollars in thousands)

	Activity 1			Activity 2			Activity 3			Total		
	Perm. Pos.	Ave. Pos.	Amount	Perm. Pos.	Ave. Pos.	Amount	Perm. Pos.	Ave. Pos.	Amount	Perm. Pos.	Ave. Pos.	Amount
Program Changes:												
Based on the termination of the General Revenue Sharing Program (GRS) when the current authorization expires on September 30, 1986 and complete phase-out of the Salaries and Expenses (S&E) account by September 30, 1987	---	-11	$-642	---	-15	$-1,255	---	-14	$+75	---	-40	$-1,822
Total, Program Changes	—	-11	$-642	—	-15	$-1,255	—	-14	$+75	—	-40	-1,822
Total Increases or Decreases 1987 Compared with Proposed Authorized Level	—	-11	$-642	—	-15	$-1,255	—	-14	$+75	---	-40	$-1,822

287

Salaries and Expenses, Office of Revenue Sharing

SUMMARY JUSTIFICATION OF FY 1987 BUDGET ESTIMATES

General Statement

The State and Local Fiscal Assistance Act of 1972, as amended by the Local Government Fiscal Assistance Amendments of 1983, authorizes the distribution of $4.6 billion to over 39,000 units of local government in FY 1984, 1985 and 1986 contingent upon approval of appropriations by the Congress.

The two major goals of the Office of Revenue Sharing are: (1) to provide for the efficient payment of entitlements to general-purpose local governments (counties, cities, and townships); and (2) to administer effectively the compliance requirements placed by statute on recipient governments. Both of these goals are defined in the State and Local Fiscal Assistance Act, as amended in 1983. Following from these statutory requirements, there is an associated need to provide information to the Congress, policymakers, and the public when the future of the Program is periodically considered; and, in particular, to recipient governments so that they may effectively participate in the Program and meet its requirements.

The request for Fiscal Year 1987 consists of 75 average positions and $5,560,000. It is based on the termination of the General Revenue Sharing Program when the current authorization expires on September 30, 1986. Funding and positions in this FY 1987 Budget Request will allow phase-out of the administration of the Program to be completed by September 30, 1987. It is presented in the following three activities, among which Executive Direction has been spread to permit a more representative presentation of the actual cost of each.

1. Legal and Support Services

	Authorized Levels		
	1986 Levels	1987 Levels	Decreases for 1987
Total Authorized Positions	32	32	---
Total Average Positions	26	15	-11
Total Dollars ($000)	$1,766	$1,124	$-642

SUMMARY JUSTIFICATION OF FY 1987 BUDGET ESTIMATES
(continued)

The FY 1987 changes include $-842,000 for the complete phase-out of the Salaries and Expenses account by September 30, 1987.

This activity is composed of the Office of the Chief Counsel and the Division of Planning, Administration and Budget which provide the legal, planning and administrative services necessary to accomplish the goals of the Office of Revenue Sharing. The Office of the Chief Counsel provides legal opinions to the operating divisions of the Office, reviews compliance cases, conducts administrative hearings resulting from these cases, and provides support for policy formulation associated with the Program. The Division of Planning, Administration and Budget has responsibility for operational planning, Trust Fund accounting, intergovernmental relations, and such normal support functions as personnel operations, information resources, procurement, space management, supplies, and record-keeping. In FY 1987, an estimated four average positions in the Office of the Chief Counsel and eleven average positions in the Division of Planning, Administration and Budget will be required to close down the operation.

2. **Operations and Technical Assistance**

	Authorized Levels		
	1986 Levels	1987 Levels	Decrease for 1987
Total Authorized Positions .	35	35	---
Total Average Positions	29	14	-15
Total Dollars ($000)	$2,649	$1,394	$-1,255

The FY 1987 changes include $-1,255,000 for the complete phase-out of the Salaries and Expenses account by September 30, 1987.

SUMMARY JUSTIFICATION OF FY 1987 BUDGET ESTIMATES
(continued)

This activity is composed of the Systems and Operations, and Data and Demography Divisions. These offices carry out the essential goal of efficiently making payments to recipient governments by acquiring current and accurate data for use in computing allocations of funds.

The Systems and Operations Division allocates funds, issues payments, and maintains all controls and documents associated with payments. In addition to making payments, the Systems and Operations Division provides support for other units of the Office, especially those in the Monitoring and Enforcement activity, through the development and maintenance of management information systems.

The Data and Demography Division supports the payment function. This support includes obtaining and reviewing the allocation data provided by the Bureau of the Census and other Federal agencies, reviewing challenges by recipients to the accuracy of data and making appropriate adjustments to payments resulting from challenges.

In FY 1987, an estimated eleven average positions in the Systems and Operations Division and three average positions in the Data and Demography Division will be required to close down the operation.

290

SUMMARY JUSTIFICATION OF FY 1987 BUDGET ESTIMATES
(continued)

3. Monitoring and Enforcement

	Authorized Levels		
	1986 Levels	1987 Levels	Decrease/Increase for 1987
Total Authorized Positions ...	68	68	---
Total Average Positions	60	46	-14
Total Dollars ($000)	$2,967	$3,042	$+75

The FY 1987 changes include a net increase of $75,000 to permit a concentration on reducing the Civil Rights and Audit Divisions' investigative backlog.

This activity is composed of the Civil Rights and Audit Divisions which provide the resources for ensuring compliance by recipient governments with their obligations under the Revenue Sharing Act. These include nondiscrimination, auditing, and public participation requirements.

The Civil Rights Division investigates complaints of discrimination brought to its attention and monitors the progress of remedial action.

The Audit Division is charged by law with ensuring that all governments receiving $25,000 to $100,000 in Revenue Sharing funds annually have independent audits according to generally accepted auditing standards of all of their funds at least once every three years, and annually for those receiving over $100,000 -- approximately 12,000 recipients in all. This requires the review of State audit offices responsible for auditing many localities or reviewing audits performed by independent public accountants, review of the practices of independent public accountants who also perform such audits when State agencies do not perform the review function, and review of the thousands of audit reports sent directly to the Office of Revenue Sharing.

Salaries and Expenses, Office of Revenue Sharing

SUMMARY JUSTIFICATION OF FY 1987 BUDGET ESTIMATES
(continued)

Finally, the Public Participation Branch of the Audit Division follows up on complaints and audit reports suggesting violations of the public hearing and notice requirements of the Revenue Sharing Act.

In FY 1987, an estimated thirty-one average positions in the Civil Rights Division and fifteen average positions in the Audit Division will be required to close down the operation.

OFFICE OF REVENUE SHARING

Federal Funds

General and special funds:

SALARIES AND EXPENSES

For necessary expenses of the Office of Revenue Sharing, including hire of passenger motor vehicles [$7,714,200] $5,560,000 (Department of Housing and Urban Development - Independent Agencies Appropriation Act, 1986.)

EXPLANATION OF LANGUAGE CHANGES: None

Salaries and Expenses, Office of Revenue Sharing

SUMMARY OF EMPLOYMENT
(Number of Average Positions)

Principal Categories	Actual FY 1985	Estimated FY 1986	Estimated FY 1987	Changes for FY 1987 Total	Changes for FY 1987 Program	Changes for FY 1987 Other
Accountants/Auditors	13	14	12	-2	-2	---
Attorneys	5	6	2	-4	-4	---
Computer Specialists	13	12	9	-3	-3	---
Economist	1	1	1	---	---	---
Equal Opportunity Specialists	25	26	15	-11	-11	---
Management/Administrative Staff	13	11	10	-1	-1	---
Miscellaneous Clerical/Technical Assistance Staff	17	14	6	-8	-8	---
Program/Management Analysts	16	15	11	-4	-4	---
Information Resources Specialist	1	1	1	---	---	---
Secretarial/Clerk Typist Staff	16	14	8	-6	-6	---
Subtotal	120	114	75	-39	-39	---
Part-time and Temporary Average Positions	3	1	---	-1	-1	---
Total Average Positions	123	115	75	-40	-40	---

Salaries and Expenses, Office of Revenue Sharing

Explanation of Program Changes for Fiscal Year 1987

Program Changes

The Office of Revenue Sharing was established in 1972 to implement the Revenue Sharing Program, as authorized by the State and Local Fiscal Assistance Act of 1972 (as amended by the Local Government Fiscal Assistance Amendments of 1983). The responsibilities of the Secretary of the Treasury concerning this program include: (1) formulating and implementing regulations and rules for the conduct of the Revenue Sharing Program; (2) calculating allocations for over 39,000 local governments for each entitlement period and making payments to those governments in the correct amount; (3) maintaining accounting records of each of the State and local governments relative to the Local Government Fiscal Assistance Trust Fund; (4) providing guidance to local governments in connection with the Revenue Sharing Act, as amended; (5) ensuring compliance with the requirements of the Act, the Age Discrimination Act of 1975, (Section 504), the Rehabilitation Act of 1973, and the Civil Rights Acts of 1964 and 1968; and (6) reporting to the Congress, recipient governments, and the general public at regular intervals on the Revenue Sharing Program.

The request for fiscal year 1987 consists of 75 average positions and $5,560,000. It is based on the termination of the General Revenue Sharing Program when the current authorization expires on September 30, 1986. Funding and positions in this FY 1987 Budget Request will allow phase-out of the administration of the Program to be completed by September 30, 1987. The requested program changes by budget activity are as follows:

Salaries and Expenses, Office of Revenue Sharing

Explanation of Program Changes for Fiscal Year 1987 (continued)

(Dollars in thousands)

Activity	FY 1986 Authorized		FY 1987 Estimate		FY 1987 Program Changes	
	Ave. Pos.	Amount	Ave. Pos.	Amount	Ave. Pos.	Amount
1. Legal and Support Services	26	$1,766	15	$1,124	-11	$-642
2. Operations and Technical Assistance	29	2,649	14	1,394	-15	-1,255
3. Monitoring and Enforcement	60	2,967	46	3,042	-14	+75
Total	115	$7,382	75	$5,560	-40	$-1,822

The FY 1987 program changes are based on the termination of the General Revenue Sharing Program when the current authorization expires on September 30, 1986. The reduction of $1,822,000 and 40 average positions in the Salaries and Expenses account will leave sufficient resources to complete the close-down of the operation by September 30, 1987.

1. Legal and Support - This activity provides the legal and administrative services necessary to accomplish the goals of the Office of Revenue Sharing. The Office of the Chief Counsel provides legal opinions to the operating divisions of the Office, reviews compliance cases, conducts administrative hearings resulting from these cases, and provides support for policy formulation associated with the Program. The Division of Planning, Administration and Budget has responsibility for such normal support functions as intergovernmental operations, personnel operations, information resources, procurement, space management, supplies, and record-keeping. In FY 1987, an estimated four average positions in the Office of the Chief Counsel and eleven average positions in the Division of Planning, Administration and Budget will be required to close down the operation.

The following table displays the sub-activity funding levels requested for this activity.

Salaries and Expenses, Office of Revenue Sharing

Explanation of Program Changes for Fiscal Year 1987 (continued)

Legal and Support:

(Dollars in thousands)

	Authorized FY 1986		FY 1987 Request		FY 1987 Program Changes	
	Ave. Pos.	Amount	Ave. Pos.	Amount	Ave. Pos.	Amount
a. Chief Counsel	8	$ 585	4	$ 341	-4	$-244
b. Planning, Administration and Budget............	18	1,181	11	783	-7	-398
Total	26	$1,766	15	$1,124	-11	$-642

The FY 1987 program changes consist of $-642,000 and -11 average positions related to the complete phase-out of the Salaries and Expenses account by September 30, 1987.

2. **Operations and Technical Assistance** - This activity carries out the essential goal of efficiently making payments to recipient governments by acquiring current and accurate data for use in computing allocations of funds. The Systems and Operations Division, in addition to making payments, provides support to the entire Office through maintenance and development of management information systems and through trial allocations and data analyses. The Data and Demography Division reviews allocation data as well as challenges to the accuracy of the data by recipient governments. In FY 1987, an estimated eleven average positions in the Systems and Operations Division and three average positions in the Data and Demography Division will be required to close down the operation.

Explanation of Program Changes for Fiscal Year 1987 (continued)

The following table displays the sub-activity funding levels requested for this activity.

Operations and Technical Assistance:

(Dollars in thousands)

	Authorized FY 1986		FY 1987 Request		FY 1987 Program Changes	
	Ave. Pos.	Amount	Ave.Pos.	Amount	Ave. Pos.	Amount
a. Systems and Operations Division	22	$2,041	11	$1,092	-11	$ -949
b. Data and Demography Division	7	608	3	302	-4	-306
Total	29	$2,649	14	$1,394	-15	$-1,255

The FY 1987 program changes consist of $-1,255,000 and -15 average positions related to the complete phase-out of the Salaries and Expenses account by September 30, 1987.

3. **Monitoring and Enforcement** - This activity provides the resources for ensuring compliance by recipient governments with their obligations under the Revenue Sharing Act. These include nondiscrimination, audit, and public participation requirements. The Civil Rights Division investigates complaints of discrimination brought to its attention and monitors the progress of remedial action. The Audit Division is charged by law with ensuring that all governments receiving $25,000 to $100,000 in Revenue Sharing funds annually have independent audits according to generally accepted auditing standards of all of their funds at least once every three years, and annually for those receiving over $100,000, which includes approximately 12,000 recipient governments in all. Finally, the Public Participation Branch of the Audit Division monitors compliance of recipient

Explanation of Program Changes for Fiscal Year 1987 (continued)

governments with the public participation requirements of the Revenue Sharing Act. In FY 1987, an estimated thirty-one average positions in the Civil Rights Division and fifteen average positions in the Audit Division will be required to close down the operation.

The following table displays the sub-activity funding levels requested for this activity.

Monitoring and Enforcement:

(Dollars in thousands)

	Authorized FY 1986		FY 1987 Request		FY 1987 Program Changes	
	Ave. Pos.	Amount	Ave. Pos.	Amount	Ave. Pos.	Amount
a. Civil Rights Division .	38	$1,919	31	$2,022	- 7	$+103
b. Audit/Public Participation Division	22	1,048	15	1,020	- 7	-28
Total	60	$2,967	46	$3,042	-14	$ +75

The FY 1987 program changes consist of a net increase of $75,000 to permit a concentration on reducing the Civil Rights and Audit Divisions' investigative backlog.

DEPARTMENT OF THE TREASURY

SALARIES AND EXPENSES, OFFICE OF REVENUE SHARING

Standard Classification Schedule
(Direct Obligations Only)

	Actual 1985	Authorized Level 1986	Estimate 1987	1987 Change from 1986
Total number of permanent positions	137	135	135	---
Average paid employment	123	115	75	-40
			(Dollars in thousands)	
Object Classification				
Personnel Compensation:				
Permanent positions	$4,313	$6,249	$2,886	$-1,363
Other than full-time permanent	97	150	---	-150
Other personnel compensation	37	60	182	+122
Total personnel compensation	4,447	6,459	3,068	-1,391
Personnel benefits, civilian employees	506	518	393	-125
Benefits to Former Personnel	4	---	644	+644
Travel and transportation of persons	86	78	78	---
Standard level user charges	584	649	374	-275
Other rents, communications & utilities	266	257	157	-100
Printing and reproduction	82	120	---	-120
Other services:				
Non-Federal services	172	168	54	-114
Federal services	1,074	1,038	764	-274
Sub-total (Other Services)	1,246	1,206	818	-388
Supplies and materials	41	51	25	-26
Equipment	40	44	3	-41
Total obligations	7,302	7,382	5,560	-1,822
Unobligated balance available, start of year	---	---	---	---
Unobligated balance, lapsing	539	---	---	---
Total Appropriation, Authorized Level, and Budget Estimate	$7,841	$7,382	$5,560	$-1,822

300

Salaries and Expenses, Office of Revenue Sharing

EXPLANATION OF OBLIGATIONS BY OBJECT CLASS

(Dollars in thousands)

	Actual 1985	Authorized Level 1986	Estimate 1987	1987 Change from 1986
PERSONAL SERVICES AND BENEFITS				
Personnel compensation:				
Permanent positions	4,313	4,249	2,886	-1,363
Other than full-time permanent	97	150	---	-150
Other personnel compensation	37	60	182	+122
Personnel benefits	506	518	393	-125
Benefits to Former Personnel	4	---	644	+644
Total, personal services and benefits	4,957	4,977	4,105	-872

Personal services and benefit costs include all salaries and benefits which are paid to the Office of Revenue Sharing employees. The principal factor affecting costs in this budget year is the complete phase-out of the Salaries and Expenses account by September 30, 1987 related to the termination of the General Revenue Sharing Program when the current authorization expires on September 30, 1986.

The overall reduction in personnel compensation and benefits is netted against an increase in terminal leave to accommodate lump sum payments and an anticipated increase in overtime during the phase-out process. The funding in personnel compensation and benefits is directly attributable to the 75 requested average positions and will be sufficient to accommodate the possibility of a Reduction In Force (RIF) during FY 1987 to a level of zero by September 30, 1987, $-1,516,000.

Benefits for former personnel reflects the estimated costs associated with severance pay ($460,000) and unemployment compensation ($184,000) payable to 30 individuals separated through a RIF.

TRAVEL AND TRANSPORTATION OF PERSONS				
Actual vs. estimates	86	78	78	—

The estimate for 1987 reflects continued travel costs incurred in closing Civil Rights investigations to permit orderly Program termination.

301

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Salaries and Expenses, Office of Revenue Sharing

EXPLANATION OF OBLIGATIONS BY OBJECT CLASS
(continued)

	(Dollars in thousands)			
	Actual 1985	Authorized Level 1986	Estimate 1987	1987 Change From 1986
RENTS, COMMUNICATIONS AND UTILITIES				
Standard Level User Charges	504	649	374	-275
These funds are required for anticipated billings by the General Services Administration (GSA) for the rent and maintenance of leased space by the Office of Revenue Sharing at Columbia Plaza. The FY 1987 estimate includes a decrease in office space to reflect gradual consolidation of work stations, desks, and equipment. The decrease does not precisely track with actual staffing reductions since major equipment and files (audit) cannot be moved economically.				
Other Rents, Communications and Utilities	266	257	157	-100
These resources provide equipment and copy machine rental, FTS services, postal services, and commercial telephone services. The reduction in FY 1987 is commensurate with office close-down.				
PRINTING AND REPRODUCTION				
Actual vs. Estimates	82	120	---	-120
No printing and reproduction resources are requested for FY 1987.				

EXPLANATION OF OBLIGATIONS BY OBJECT CLASS
(continued)

(Dollars in thousands)

	Actual 1985	Authorized Level 1986	Estimate 1987	1987 Change from 1986
OTHER SERVICES				
Actual vs. Estimates	1,246	1,206	818	-388

These resources provide for such services as health units, training enrollments, inter/intra agency agreements data processing, and special contracts for the administrative operations of the program.

The 1987 estimate reflects a decrease in total Other Services costs of $388,000. The following essential close-down activities will be required: Health Services, Payroll Services, Repair and Maintenance Services, Federal Agency Services (i.e., personnel, procurement), ADP Contracts and non-Federal Services.

SUPPLIES AND MATERIALS				
Actual vs. Estimates	41	51	25	-26

This represents a reduction of $26,000 in ADP supplies and all other supplies while allowing for miscellaneous close-down supplies, e.g., diskette cases for storing/transporting word-processing diskettes.

EQUIPMENT				
Actual vs. Estimates	40	44	3	-41

This will provide equipment necessary for moving and packing files and documents within the office.

DEPARTMENT OF THE TREASURY
OFFICE OF REVENUE SHARING
Numbers of Civilian Personnel

	Number of Employees at End of Year					
	1985 Actual		1986 Estimate		1987 Estimate	
	Full-time in Permanent Positions	Total	Full-time in Permanent Positions	Total	Full-time in Permanent Positions	Total
Office of Revenue Sharing, Salaries and Expenses	121	123	115	115	-0-	-0-

Salaries and Expenses, Office of Revenue Sharing

DETAIL OF PERMANENT POSITIONS

	Appropriation FY 1985	Authorized FY 1986	Estimate FY 1987
Senior Executive Service Level 1	1	---	---
Senior Executive Service Level 2	---	1	1
Senior Executive Service Level 3	1	1	1
Senior Executive Service Level 4	1	1	1
Subtotal	3	3	3
GS/GM-15	8	8	8
GS/GM-14	22	20	20
GS/GM-13	19	26	28
GS-12	33	28	26
GS-11	15	8	8
GS-10	---	---	---
GS-9	8	8	10
GS-8	5	5	5
GS-7	8	12	10
GS-6	7	7	7
GS-5	7	6	6
GS-4	1	3	3
GS-3	1	1	1
GS-2	---	---	---
Subtotal	134	132	132
Total permanent positions	137	135	135
Unfilled positions, end of year	-16	-20	-135
Total permanent employment, end of year	121	115	-0-

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Salaries and Expenses, Office of Revenue Sharing

AVERAGE GRADES AND SALARIES

	Appropriation FY 1985	Authorized FY 1986	Estimate FY 1987
Average ES salary	$ 65,409	$ 66,232	$ 66,232
Average GS grade	11.10	10.95	10.98
Average GS salary	$ 34,910	$ 35,290	$ 36,465

Payments to Local Government Fiscal Assistance Trust Fund, Office of Revenue Sharing

DEPARTMENT OF THE TREASURY
ANALYSIS OF AUTHORIZED LEVEL FOR FISCAL YEAR 1987
(Dollars in thousands)

	Permanent Positions	Average Positions	Amount
1986 Appropriation Enacted by Congress	---	---	$4,185,000
Adjustment:			
Rescission Proposal	---	---	-759,975
Total Authorized Level for FY 1986	---	---	3,425,025
Estimate, FY 1987	---	---	$ ---

DIGEST OF BUDGET ESTIMATES BY ACTIVITIES FISCAL YEAR 1987

	Appropriation FY 1985		Authorized Level FY 1986		Budget Estimate FY 1987	
	Ave. Pos.	Amount	Ave. Pos.	Amount	Ave. Pos.	Amount
General revenue sharing payments	---	$4,566,700	---	$4,185,000	---	$ ---
Total appropriation, authorized level, and budget estimate	---	$4,566,700	---	$3,425,025	---	$ ---

Payments to Local Government Fiscal Assistance Trust Fund, Office of Revenue Sharing

SUMMARY JUSTIFICATION OF FY 1987 BUDGET ESTIMATE

General Statement

The Local Government Fiscal Assistance Trust Fund was established by the State and Local Fiscal Assistance Act of 1972 to provide Revenue Sharing payments to States and localities. Payments to recipients have been made quarterly with the fourth-quarter payment for each year being paid within the first 5 days of the succeeding fiscal year, as provided by law.

Legislation was enacted in 1983 to amend the State and Local Fiscal Assistance Act of 1972. The Revenue Sharing Program continued under the Administration of the Department of the Treasury.

The General Revenue Sharing Program will terminate when the current authorization expires on September 30, 1986.

PAYMENTS TO LOCAL GOVERNMENT FISCAL ASSISTANCE TRUST FUND

For payments to the Local Government Fiscal Assistance Trust Fund, as authorized by the State and Local Fiscal Assistance Act of 1972, as amended (31 U.S.C. 6701 (a)(1)), $4,185,000,000. (Department of Housing and Urban Development - Independent Agencies Appropriation Act, 1986).

EXPLANATION OF LANGUAGE CHANGES: The General Revenue Sharing Program will terminate when the current authorization expires on September 30, 1986.

FY 1986 APPROPRIATION RESCISSION PROPOSAL

DEPARTMENT OF THE TREASURY
OFFICE OF REVENUE SHARING
PAYMENTS TO LOCAL GOVERNMENT FISCAL ASSISTANCE TRUST FUND

The Administration is proposing government-wide rescissions in FY 1986 to obtain necessary cost savings. In support of this initiative, a rescission in the amount of $759,975,000 is proposed here, which would eliminate the final quarterly payment from the Local Government Fiscal Assistance Trust Fund.

310

RESCISSION PROPOSAL

DEPARTMENT OF THE TREASURY
OFFICE OF REVENUE SHARING
PAYMENTS TO LOCAL GOVERNMENT FISCAL ASSISTANCE TRUST FUND

Program and Financing
(In thousands of dollars)

Identification Code: 20-2111-5-1-851	1985 Actual	1986 Estimate	1987 Estimate
Program by activities:			
10.00 Total obligations .... (object class 25.0)	---	$-759,975	---
Financing:			
40.01 Budget authority (appropriation rescission proposal R[1986]) (Permanent, indefinite)	---	$-759,975	---
Relation of obligations to outlays:			
71.00 Obligations incurred, net	---	$-759,975	---
90.00 Outlays	---	$-759,975	---

RESCISSION PROPOSAL

DEPARTMENT OF THE TREASURY
OFFICE OF REVENUE SHARING
PAYMENTS TO LOCAL GOVERNMENT FISCAL ASSISTANCE TRUST FUND
Object Classification
(In thousands of dollars)

Identification Code: 20-2111-5-1-851	1985 Actual	1986 Estimate	1987 Estimate
Direct obligations:			
25.0 Grants, Subsidies, Contributions	---	$-759,975	---

THURSDAY, FEBRUARY 20, 1986.

NATIONAL CREDIT UNION ADMINISTRATION

WITNESSES

SENATOR ROGER W. JEPSEN, CHAIRMAN
WILLIAM C. POLING, BUDGET OFFICER
ROBERT M. FENNER, GENERAL COUNSEL
D. MICHAEL RILEY, PRESIDENT, CLF

FISCAL YEAR REQUEST

Mr. **GREEN**. Senator Jepsen, we welcome you to this hearing. The limitation on new loans in 1985 actually was $47,252,000. The FY 86 estimate is $567,884,000, representing a proposed reduction of $25,561,000 due to the Balanced Budget and Deficit Control Act of 1985. The request is for $600 million in 1987. The actual limitation on administrative expenses in FY 1985 was $766,000, and you estimate for FY 86, $804,650. This FY 86 amount represents a reduction of $36,000 because of the Gramm-Rudman sequestration. The FY 87 request is $850,000 for the limitation on administrative expenses. The FTEE actually was 4 in FY 1985, the estimate for FY 86 is 6, and the FY 87 request is 6.

The Administration is also proposing a limitation of $10,352,000 on administrative expenses of the National Credit Union Administration's insurance program.

Senator Jepsen, we are happy to put your full statement in the record and we will be pleased to hear from you.

Senator **JEPSEN**. Thank you, Congressman, for the opportunity to appear before you today to present the request of the NCUA Central Liquidity Facility. I would respectfully request that my statement be entered in the record as read.

Mr. **GREEN**. That will be done.

Senator **JEPSEN**. As you indicated, as a result of a 1.1 percent across-the-board cut in the HUD and Independent Agencies bill for fiscal year '86, plus the Gramm-Rudman-Hollings cut of 4.3 percent, the CLF did experience a slight decrease in the limits that we requested. We are again requesting the same request we have made for six years in a row, a $600 million limit on new loans, and expense limitations of $850,000. We have never come close to using these limitations, thank goodness, but really, the CLF by statute deals with unusual or unpredictable interest causing liquidity pressures, and as a lender of last resort, it provides a level of confidence nationally from the Credit Union movement that is invaluable, and so we respectfully submit the same request.

I have with me today Mr. Riley, on my immediate right, who is President of the Central Liquidity Facility; Robert Fenner, our

General Counsel, on my left; and Mr. Poling, the Budget Officer. We will be very pleased to answer any questions that you have. We thank you for your confidence and your assistance in the past, and we are very hopeful that we can continue as we have with our request. As you know, we are not appropriated funds.

Mr. GREEN. I appreciate that.

Senator JEPSEN. Some don't understand that. When I was appointed, of course, coming from the U.S. Senate, it was written that I was going back in, you know the normal writeup, to the public trust and public funds. NCUA doesn't use tax dollars. Operational expense are completely taken from the investment income that has been received in the capitalization from the credit unions themselves. The CLF, Mr. Green, is a very key psychological tool.

[The statement of Senator Jepsen follows:]

STATEMENT OF ROGER W. JEPSEN

Mr. Chairman and members of the subcommittee:

Accompanying me to discuss the request for the NCUA Central Liquidity Facility are D. Michael Riley, President of the Central Liquidity Facility; Robert M. Fenner, General Counsels and William Poling, Budget Officer.

For fiscal year 1987, we are requesting a $600 million limit on new loans, which is identical to our requests of the previous 6 years. The expense limitation of $850,000 is also the same as what we have been presenting in recent years. Last year, the CLF did experience a slight decrease in these limits - the result of a 1.1% across-the-board cut in the Hud - Independent Agencies Bill for fiscal year 86, plus a Gramm-Rudman-Hollings cut of 4.3%.

Because the CLF, by statute, deals with unusual or unpredictable events causing liquidity pressures, loan demand from the CLF varies greatly. The FY 85 outstanding loan balance decrease $47.6 million below the previous year-end, but the FY 84 year-end increased $225 million above FY 83. Credit unions are currently very liquid due to record share growth. In this situation, demand for the Central Liquidity Facility is minimal. However, this can and has changed very quickly in the past.

We do not see authorizations as reason to build up loan volumes to the approved limit; rather, funds will be advanced strictly to support the purposes of the Act and in response to circumstances dictated by market events. The relatively low utilization of our total authority can be viewed as a positive sign of credit unions' ability to manage funds, of a strong corporate credit union system, and of a good economy.

The CLF's role has been and will continue to be the vehicle that is available when unexpected, unusual, or extreme events cause temporary fund shortages. If not handled immediately, these shortages could lead to larger confidence crises in a credit union or in the corporate system. Because of our knowledge of credit unions and immediate access to the supervisory information of NCUA, the CLF exercises a vital role in maintaining member and public confidence in the U.S. credit union financial system.

Lastly, Mr. Chairman, it should be noted that, even though NCUA is self-supporting and receives no tax monies, we are subject to the Gramm-Rudman-Hollings Act. We do not know precisely the effect of this statute for FY 87, but it could clearly have a severe adverse impact not only on the CLF but also on our entire agency.

I will be happy to answer any questions.

NATIONAL CREDIT UNION ADMINISTRATION
WASHINGTON D.C. 20456

BIOGRAPHY

SENATOR ROGER W. JEPSEN

CHAIRMAN
NATIONAL CREDIT UNION ADMINISTRATION BOARD

Roger W. Jepsen was confirmed by the Senate on October 16, 1985 as a member of the National Credit Union Administration Board. Designated Chairman by President Reagan, he is serving an unexpired term which ends August 2, 1987.

Roger Jepsen has been elected to public office 14 times in the past 23 years. He was elected to the United States Senate (R-Iowa) on November 7, 1978 and served from 1979 to 1984. He was elected Scott County, Iowa, County Supervisor in 1962, and served until 1966. He was elected Lt. Governor of the State of Iowa in 1968, and re-elected in 1970. During his second term as Lt. Governor, he was elected and served as Chairman of the National Lt. Governors Conference. In 1972, 1980, and 1984, Senator Jepsen was a delegate to the National GOP Convention.

In the Senate, Senator Jepsen served as Chairman of the Joint Economic Committee of Congress from 1983 to 1984. He served as a member of the Joint Economic Committee, Armed Services Committee and the Agriculture, Nutrition, and Forestry Committee from 1979 to 1984.

The professional career of Senator Jepsen has included a variety of positions. He served as guidance counselor and Assistant Registrar of Arizona State University from 1950 to 1953 and taught a marketing course at the University of Northern Iowa in 1955. The Senator entered the life insurance industry in 1953 and was Branch Manager of Connecticut General Life Insurance Company from 1956 to 1972. From 1973 to 1976 he served as Executive Vice President of Agridustrial Electronics.Company. Prior to Senator Jepsen's election to the United States Senate in 1978, he was President of a marketing company which he formed in 1976.

A paratrooper in the 82nd Airborne Division of the U.S. Army from 1946 to 1947, he also served in the Army Reserve from 1948 through 1960. He is a member of the American Legion.

Senator Jepsen attended Iowa State Teachers College from 1945 to 1946. He received his B.S. in 1950, and his M.A. in 1953, both from Arizona State University in Tempe. He was named To Who's Who in American Colleges and Universities, and graduated with honors.

Senator Jepsen has been active in a number of civic organizations in the Davenport area including: Heart Fund (Honorary Iowa Chairman); Board of Directors, Davenport YM-YWCA; Association of Mentally Retarded.

In addition, Senator Jepsen is currently an active member of the Full Gospel Businessmen International, the Iowa Farm Bureau, and the Variety Club. A co-founder of C.R.E.E.D. (Christian Rescue Effort for the Emancipation of Dissidents), the Senator and his wife are actively involved in numerous Christian activities.

A native of Black Hawk County, Senator Jepsen was born in Cedar Falls, Iowa, on December 23, 1928, to Ernest and Esther Jepsen. He spent his youth on the family farm near Cedar Falls. He is married to the former Dee Ann Delaney of Davenport. They have six children and five grandchildren.

GRAMM-RUDMAN IMPACT

Mr. **Green**. Senator, at the end of your prepared statement you indicated that while the precise effects of Gramm-Rudman in '87 couldn't be known, it could have a severe impact both on the CLF and on the entire agency. What is your concern regarding the CLF? Is it the loan limitation or the limitation on administrative expenses or both?

Senator **Jepsen**. The statement was more of a general one in that I indicated the Gramm-Rudman could have a serious adverse effect on not only CLF but on our entire agency. That goes directly to the point of personnel and the fact that with 356 examiners we are on a schedule examining approximately 11,000 credit unions annually, and credit union growth has been at the rate of nearly 25 percent this year. Also the additional burden and responsibility for quality examinations and the general climate that exists would have an adverse effect, if indeed Gramm-Rudman would apply. However, we have some question whether it should or does apply to what the Joint Economic Committee used to call "off budget" items, which is where we fall.

Mr. **Green**. Have there been any adverse impacts in fiscal '86 so far as a result of Gramm-Rudman?

Senator **Jepsen**. In my estimation there has not been any adverse effects, primarily because there hasn't been much activity. It has all been in the speculative area. We have been scrambling like everybody else trying to find out how Gramm-Rudman would affect us.

Mr. **Green**. I guess much deeper cuts would take place in '87?

Senator **Jepsen**. 1987 is what we are worried about.

ADMINISTRATION EXPENSE LIMITATION

Mr. **Green**. The Administration is proposing an FY 87 limitation of $10,352,000 on administrative expenses of the National Credit Union's insurance program. This is the first time that a limitation on administrative expenses of the insurance program has been proposed. Why is this new limitation being proposed?

Senator **Jepsen**. That is a bit of a surprise to me. I want to refer in a minute to Mr. Riley, but if someone could show me where they sorted out administrative expenses for the insurance fund with NCUA directly laced in the fabric of our entire operation, it is difficult to separate these all out.

Mr. **Green**. I gather from what you are saying that it wasn't you who proposed the establishment of this new limitation?

Senator **Jepsen**. No.

Mr. Riley, would you respond to that, please?

Mr. **Riley**. Certainly, I think that a $10 million limitation would be almost a third of our entire budget. It would have a dramatically negative impact on our ability to provide a safe and sound credit union system.

Mr. **Poling**. I think I can give you a little history of what occurred there. During the Gramm-Rudman process, OMB was concerned about our examination program, and inserted that into the language. The bottom line is that represents a definition of our administrative cost expenses, and under that definition of our administrative cost expenses, they in effect are telling us that they are exempting our examination program under Gramm-Rudman, and that they will only apply the cut to that $10,$352,000 for fiscal '87.

Mr. GREEN. Have you had any indication why a limitation on examination and supervision of the insurance program isn't also being proposed if, as a matter of principle, they would want everything?

Mr. POLING. I do not.

Senator JEPSEN. It seems to me like somebody is using good judgment. We really have addressed that before them, presented it to them, and it would be catastrophic, frankly, if they did cut that.

LOAN DEMAND AND ASSET GROWTH

Mr. GREEN. In 1984 loan demand exceeded asset growth. Asset growth was about 16 percent and loan demand about 26 percent. Did loan demand exceed asset growth in '85, and what is the outlook in '86?

Senator JEPSEN. Loan demand did not exceed asset growth.

Mr. Riley, would you respond to that, please?

Mr. RILEY. Shares in deposit growth are up about 23 to 25 percent. Our loan growth is up about 14 percent.

Mr. GREEN. That was in '85?

Mr. RILEY. 1985.

Mr. GREEN. How does this year look?

Mr. RILEY. So far this year our initial figures show about the same.

LOANS TO INVESTMENT RATIO

Mr. GREEN. Last year, Mr. Callahan indicated that the trend was for more loans to members and fewer dollars going to investments. The ratio of loans to investments was about 70 to 30 percent. Is that trend continuing?

Mr. RILEY. No. We are down to about 67 percent. We had one of the fastest growth periods we have ever had in our deposit base this year, and I think, as with all financial institutions, we are very liquid right now.

Mr. GREEN. That 67 percent is in FY 85?

Mr. RILEY. Yes.

NEGATIVE OUTLAY TRENDS

Mr. RILEY. The budget schedule on page 10 of the justification shows negative outlays in '85, '86 and '87 for the central liquidity fund. Last year the outlay estimates were positive. What accounts for the negative outlays in the CLF?

Mr. POLING. That, in effect, are the repayments of loans that exceed the disbursements of loans in that period.

Mr. GREEN. How long do you expect negative outlays for CLF will continue?

Mr. POLING. Based on the trend for 1985, '86, and '87, the balance sheet reflects a continuation of negative outlays.

EXAMINATION CYCLE

Mr. **Green**. Last year you indicated the examination cycle for credit unions was 12 months. Have you been able to adhere to that currently and, if not, what is the current cycle?

Mr. **Riley**. Our current cycle is 12 months; at this time we intend to continue with that cycle.

ADMINISTRATION EXPENSE OBLIGATIONS

Mr. **Green**. You are requesting an $850,000 limitation on administrative expenses of the CLF in FY 87. In FY 85 the administrative expenses totaled $766,000. What are the administrative expense obligations for the first four months of fiscal '86?

Mr. **Poling**. $241,000.

Mr. **Green**. And what is your estimate for administrative expenses for all of FY 86?

Mr. **Riley**. $793,000 for fiscal '86.

Mr. **Green**. Do you currently intend to fill all six positions in the CLF for fiscal years '86 and '87?

Mr. **Riley**. Yes, we do.

DEPOSIT DEREGULATION

Mr. **Green**. Let me ask you this. In testimony earlier this week in connection with the Federal Home Loan Bank Board and the Federal Savings and Loan Insurance Corporation, they stated they experienced some problems because a deposit deregulation occurred. As there was expansion of their investment authority, money poured in and in some institutions' management undertook some ill-advised investments, creating some of the problems that the savings and loans are facing today in at least some parts of the industry. Other parts are doing very well. Is there a similar potential problem in the credit unions?

Senator **Jepsen**. As I understand you, Congressman, you say that because of a flood of deposits.

EXPANSION OF INVESTMENT AUTHORITY

Mr. **Green**. I was suggesting that the flood of deposits as the savings and loans were able to compete on interest rates, and at the same time there was an expansion of their investment authority, I guess, to get higher yield mixes in the portfolio, construction loan markets have turned sour; and things of that sort have left some of the savings and loans industry—particularly some in Texas and California, to mention particular problem areas—facing a similar kind of problem with their reducing the quality of their portfolio.

Senator **Jepsen**. Certainly when we have a record growth of 25 percent plus, and loans of only 14 percent in a normal year, a 14 percent loan growth would look very good. But in a year when the savings accounts grew 23 percent, you wonder if subsequently there is a tendency to look to other investments and to high risks and higher yields of interest.

We are aware of this, and we have made recommendations and taken steps to step up and provide some very expensive training for our examiners in the investment area.

We also have established and are thinking of adding additional staff to an investment hotline, and it has been very busy. In fact, it has been so busy that we are thinking that we may need another employee, and frankly, we are considering keeping it open 24 hours a day.

NCUA also intends to advise credit unions continually about the problems in the investment market, and about sound investment policies. We have cautioned them on the tendency to go to these hot investments and some of these long term investments.

We are aware of the problem. We have some of the basic factors that send up a red flag, and we are mindful of it. We have taken steps that I haven't described, and I will yield here to Mr. Riley to expand even more.

Mr. **Riley**. You are right, it does concern us. On the investment side, credit unions are a little more limited in what they can invest than the S&Ls. The fact is that the agency has increased its training budget 100 percent this year. It is in this area of agricultural lending and commercial lending, that new examiner training is concentrated.

We have a hotline where anyone can call in and ask us about things that people are selling. We are getting an enormous number of calls each day, and it is one of the things that does concern us.

We also put out advisories to credit unions about controlling the degree of credit union growth and the safety associated with this rapid growth.

Mr. **Green**. Senator, thank you very much. We appreciate your appearance here this morning.

Senator **Jepsen**. Thank you. It is good to see you again.

[The justifications follow:]

JUSTIFICATION

Budget Estimates for the

National Credit Union Administration

Central Liquidity Facility

Fiscal Year 1987

Subcommittee on HUD - Independent Agencies
Committee on Appropriations
U. S. House of Representatives
February 20, 1986

TABLE OF CONTENTS

PAGE

National Credit Union Administration
Central Liquidity Facility

Introduction 1
CLF Membership 1
Lending Activities 2
Factors Influencing Credit Union Borrowing Demand 2
Administrative Expenses 3
Corporate Tax Status 3
Explanation of Obligations by Object Class 4

Appendix

A Selected Financial Statements

Appropriation Language 5
Financial Condition 6
Income and Expense 7
Status of Direct Loans 8
Program and Financing 9
Gross Obligations and Outlays 10
Object Classification 11
Detail of Permanent Positions 12

NATIONAL CREDIT UNION ADMINISTRATION CENTRAL LIQUIDITY FACILITY

INTRODUCTION

The National Credit Union Administration Central Liquidity Facility (CLF) was created by the National Credit Union Administration Central Liquidity Facility Act (Public Law 95-630, Title XVIII, 12 U.S.C. 1795, et seq.). The CLF is a mixed ownership Government corporation managed by the National Credit Union Administration Board. It is owned by its member credit unions who contribute all of the capital in the form of shares. The CLF became operational on October 1, 1979.

The purpose of the Facility is to improve the financial soundness of credit unions by meeting their liquidity and stabilization needs and thereby encourage savings and to support consumer and mortgage lending. To accomplish this purpose, member credit unions invest in the capital stock of the Facility, and the Facility uses the proceeds of such investments and the proceeds of borrowed funds to meet the loan requests of credit unions.

In addition to serving its regular members, the CLF compliments the organizational structure of the U. S. credit union financial system by working with the majority (about 97%) of CLF's members through the corporate credit union network. This system of 42 state and federally chartered corporates with the $11.7 billion U. S. Central Credit Union at its hub, provides operational and correspondent services, investment alternatives and advice, and short term loans to approximately 18,000 natural person credit unions. The CLF provides this system with the knowledge that during periods of temporary liquidity shortages or when questions of confidence arise from external events or internal problems, funds are available to meet abnormal savings outflows. By being a specialized lender for credit unions housed within the NCUA, the CLF has the ability to draw upon the supervisory and insurance resources of the Agency. However, CLF assistance is generally a secondary source of funds after the corporate system or other sources of credit have been utilized or have been unable to provide the appropriate terms and conditions required in a specific situation.

The CLF is a government corporation whose borrowings have the "full faith and credit" of the United States government. In cooperation with Administration policy, the CLF funds its lending programs through the Federal Financing Bank of the U. S. Treasury. The CLF is financially self supporting and does not use government funds to support any of its administrative/operational expenses.

Membership in the CLF was extended to virtually every credit union in the United States by the capital stock funding of the U. S. Central Credit Union and its 42 corporate credit unions. With this action the CLF's membership base catapulted from 5,300 to more than 18,000 credit unions.

Lending Activities

Loans are available to credit unions directly from the CLF or through its agent corporate credit union members. The private sector credit union system provides most of the funds to meet the daily borrowing demands of credit unions. The CLF is not an active participant in the normal on-going daily operations of this system. Rather its role is to be available when unexpected, unusual, or extreme events cause temporary fund shortages. If not handled immediately, these shortages could lead to a larger confidence crises in a credit union or the corporate system. Because of our knowledge of credit unions and immediate access to the supervisory information of NCUA, the CLF exercises a vital role in maintaining member and public confidence in the U. S. credit union financial system.

Loan demand for the CLF results in wide variances in outstanding loan balances and advances. Fiscal year-end 1985 outstanding loan balances decreased $47.6 million below the previous year-end but FY 1984 year-end had increased $225 million above FY 1983. Fluctuations in the amount of loans advanced during any one month ranged from a low for a single month of $7 thousand to a high of $10 million in fiscal 1985. During one month in fiscal 1984, the CLF extended $40.8 million in loans.

Factors Influencing Credit Union Borrowing Demand

Because the CLF by statute deals with unusual or unpredictable events causing liquidity pressures, forecasts of loan demands must be "guess estimates," not precise projections. Circumstances that may affect loan demand in FY 1987 are:

(1) The membership base expansion of the CLF to 97% of all credit unions provides a substantial potential for CLF loans.

(2) The credit union industry enjoys the positive effects of the economic recovery. The combination of lower interest and inflation rates continues to boost consumer confidence.

For FY 1987, the Central Liquidity Facility is requesting $600 million in gross obligations for new loans to member credit unions. We believe that this limit, combined with disciplined funds management, will permit us to fulfill our statutory purpose unless extraordinary circumstances occur. This amount is approximately 9% of that authorized by statute (12 times paid-in and on-call capital of $513mm). Also this amount is very small when compared to the total credit union assets, which exceeded $118 billion as of December 31, 1985. Loan demand has historically been subject to wide and sudden swings in amounts and when loan drawdowns do occur, specific borrowings are normally in relatively large advances. We do not see borrowing authority as any reason to build up loan volumes to the approved limit (by statute, CLF loans cannot be used to expand credit union loan portfolios); rather, funds will be advanced strictly to support the purposes of the Act and in response to circumstances dictated by market events. The relatively low utilization of our total authority can be viewed as a positive sign of credit unions' ability to manage funds.

Administrative Expenses

Although the CLF was charged with portions of salaries of other NCUA offices serving the CLF and expenses increased for corporate agent reimbursement $262 thousand to $382 thousand as a result of expanded agent representation and membership, total operating expenses of $766 thousand were within the FY 1985 budget limitation of $850 thousand.

Corporate Tax Status

After a 4 1/2 year effort by credit unions and NCUA, the Congress granted CLF tax-exempt status in P.L. 98-369. The omnibus Deficit Reduction Act was signed into law on July 18, 1984. The tax exemption is retroactive to October 1, 1979, the date the CLF first opened its door for business.

Upon signing the legislation, the CLF applied for a refund of the $1.4 million in taxes paid the previous 4 fiscal years. In addition, over $300,000 of interest income will also be received for the time the funds were held by the U.S. Treasury.

NATIONAL CREDIT UNION ADMINISTRATION
Central Liquidity Facility
Explanation of Obligations by Object Class

Personnel Compensation $325, 000. Represents the estimated salary cost of 6 permanent full-time employees on duty during FY 1987.

Personnel Benefits $37,000. Includes health benefits, government life insurance, miscellaneous cash awards and change of station real estate differential.

Travel and Transportation $36,000. Represents travel for CLF staff as well as CLF Agents, state supervisors and state insurance corporations involved with CLF activities. Since CLF membership is voluntary, and CLF operations are centralized, a significant amount of promotional and educational travel is anticipated.

Transportation of Things $3,000. Shipping and delivery charges.

Communications, Utilities and Other Rent $95,000. Represents estimated rental charges for space as well as telephone and postage expenses.

Printing and Reproduction $12,000. Represents cost primarily associated with the Annual and Quarterly Reports. This expense category will also include minor costs associated with basic forms and general circulars to members.

Other Services $336,000. Primarily represents costs associated with Agent reimbursement. Other fees included in this category are legal expenses.

Supplies and Materials $6,000. Represents computer paper, visual aids, educational supplies and miscellaneous supplies for CLF, Agents and sponsors of training seminars.

Loans $80,000,000. This amount represents the cumulative total of new short-term seasonal and protracted credit provided credit unions during FY 1987.

Investments $100,000,000. Purchase of new investments during FY 1987.

Interest and Dividends $46,750. These funds represent the cost of capital (borrowings from the Federal Financing Bank) and dividends paid to members of the Facility.

Redemptions $3,500,000. Withdrawals of Capital Stock (3,000,000) and member deposits (500,000).

CENTRAL LIQUIDITY FACILITY
Appropriation Language

During [1986] 1987, obligations of the Central Liquidity Facility for new loans to member credit unions as authorized by the National Credit Union Central Liquidity Facility Act (12 U.S.C. 1795) shall not exceed $600,000,000: Provided, That administrative expenses of the Central Liquidity Facility in fiscal year [1986] 1987 shall not exceed $850,000.

[Sec. 416. Notwithstanding any other provision of this Act, amounts otherwise provided by this Act for the following accounts and activities are reduced by the following amounts:

"Central liquidity facility (limitation on administrative expenses)", $9,350;

"Central liquidity facility (limitation on new loans)", $6,600,000;] (Department of Housing and Urban Development-Independent Agencies Appropriations Act, 1986).

NATIONAL CREDIT UNION ADMINISTRATION
Central Liquidity Facility
Financial Condition
(in thousands of dollars)

	1985 Actual	1986 Estimate	1987 Estimate
ASSETS:			
Current Assets			
Cash	$2	$1	$1
Investments at (PAR)	264,758	269,758	274,758
Loans Receivable	222,169	202,500	180,000
Accrued Interest Receivable	5,975	7,500	7,967
Other Assets	1,714	1,800	2,600
Total Assets	494,618	481,559	465,326
LIABILITIES AND EQUITY:			
Liabilities			
Notes Payable	222,169	202,500	180,000
Member Deposits	13,922	13,636	13,800
Accrued Interest Payable	1,671	2,647	2,840
Accounts Payable and Other Liabilities	130	150	160
Total Liabilities	237,892	218,933	196,800
EQUITY:			
Capital Stock	251,490	256,490	261,490
Retained Earnings	5,236	6,136	7,036
Total Equity	256,726	262,626	268,526
Total Liabilities and Equity	$494,618	$481,559	$465,326

NATIONAL CREDIT UNION ADMINISTRATION
Central Liquidity Facility
Financial Condition
(in thousands of dollars)

	1985 Actual	1986 Estimate	1987 Estimate
INCOME:			
Interest on Loans	$22,628	$23,000	$24,250
Income from Investments	22,565	23,000	24,250
	45,193	46,000	48,500
EXPENSES:			
Personal Services	172	180	190
Personnel Benefits	17	18	19
Employee Travel	0	34	36
Shipping and Delivery	2	3	3
Rent, Communications and Utilities	58	65	65
Printing and Reproduction	7	10	12
Other Services Including Agent Reimbursement	502	489	519
Supplies and Materials	2	6	6
Total Operating Expenses	766	805 [1]	850
INTEREST:			
Federal Financing Bank	22,166	22,747	24,008
Member Deposits	738	703	742
Total Expenses	23,670	24,255	25,600
Net Income	21,523	21,709	22,900
Dividends to Members	20,310	20,809	22,000
Addition to Retained Earnings	1,213	900	900
Retained Earnings at Beginning of Period	4,023	5,236	6,136
Retained Earnings at End of Period	5,236	6,136	7,036

[1] Represents a 1.1% administrative expense cut (9,350) under the Hud & Independent Agencies Appropriation Bill for FY86, and a 4.3% (36,000) in - administrative expense under the Balanced Budget Emergency Deficit Control Act (Public Law 99-177).

NATIONAL CREDIT UNION ADMINISTRATION
Central Liquidity Facility
Status of Direct Loans
(in thousands of dollars)

	1985 Actual	1986 Estimate	1987 Estimate
Position With Respect to Limitation on Obligations:			
Limitation on Direct Loans to the Public	$600,000	$567,884 1/	$600,000
Unused Balance of Direct Loan Limitation	-552,748	-480,642	-520,000
Total Direct Loans to Credit Unions	47,252	100,000	80,000
Cumulative Balance of Direct Loans Outstanding:			
Outstanding Start of Year	269,812	222,169	202,500
Disbursements: Direct Loans to Credit Unions	47,252	100,000	80,000
Repayments	-94,895	-119,669	-102,500
Outstanding, End of Year	222,169	202,500	180,000

1/ Represents a 1.1% ($6,600,000) cut in Direct Loans under the Hud & Independent Agencies Appropriation Bill for FY86, and a 2.15% ($12,758,000) cut in Direct Loans to the public under the Balanced Budget Emergency Deficit Control Act (Public Law 99-177).

NATIONAL CREDIT UNION ADMINISTRATION
Central Liquidity Facility
Program and Financing
(in thousands of dollars)

		1985 Actual	1986 Estimate	1987 Estimate
PROGRAM BY ACTIVITIES:				
1.	Administrative Expense	$766	$805	$850
2.	Interest on Securities	22,904	23,450	24,750
3.	Dividends on Capital Stock	20,310	20,809	22,000
4.	Income Tax (Benefit) Provision	-	-	-
	Total Operating Costs Funded	43,980	45,064	47,600
CAPITAL INVESTMENT:				
1.	Investment in Equipment	-	-	-
2.	Loans to Credit Unions	47,252	100,000	80,000
3.	Investments	125,000	100,000	100,000
4.	Member Deposits	25,976	3,500	3,500
	Total Capital Investment Funded	198,228	203,500	183,500
10.00	Total Program Costs, Funded Obligations	242,208	248,564	231,100

NATIONAL CREDIT UNION ADMINISTRATION

Central Liquidity Facility
Gross Obligations
(in thousands of dollars)

	1985 Actual	1986 Estimate	1987 Estimate
PROGRAM BY ACTIVITIES:			
Administrative Expenses	$766	$805	$850
Interest on Borrowings	22,904	23,450	24,750
Dividends to Members	20,310	20,809	22,000
Operating Expenses	43,980	45,064	47,600
CAPITAL INVESTMENT:			
New Loans to Credit Unions	47,252	100,000	80,000
Investment Purchased	125,000	100,000	100,000
Redemption of capital stock	3,001	3,000	3,000
Withdrawal of member deposits	22,975	500	500
Total Capital investment	198,228	203,500	183,500
Total obligations	242,208	248,564	231,100
FINANCING:			
Offsetting Collections from Non-Federal Sources:			
Interest Income	-45,193	-43,304	-40,523
Capital Stock	-8,620	-8,119	-7,598
Matured Investments	-94,895	-89,314	-83,578
Credit Union Loan Repayment	-115,000	-108,259	-101,307
Member Deposits	-22,253	-21,652	-20,261
Unobligated Balance Available , Start of Year	-261,795	-268,394	-275,259
Unobligated Balance Available, End of Year	268,394	275,259	280,726
Redemption of Debt	37,154	15,183	16,700
Reduction in New Spending Authority 1/		36	
Budget Authority	-0-	-0-	-0-

1/GRAMM - RUDMAN - HOLLINGS

	1985 Actual	1986 Estimate	1987 Estimate
RELATION OF OBLIGATIONS TO OUTLAYS:			
Obligations Incurred Net	-43,753	-22,084	-22,167
Receivables in Excess of Obligations Start of Year	-7,148	-4,174	-5,498
Receivables in Excess of Obligations End of Year	4,174	5,498	5,965
Outlays	-46,727	-20,760	-21,700

NATIONAL CREDIT UNION ADMINISTRATION
Central Liquidity Facility
Object Classification
(in thousands of dollars)

		1985 Actual	1986 Estimate	1987 Estimate
PERSONNEL COMPENSATION:				
11.1	Permanent Positions	172	180	190
	Total Personnel Compensation	172	180	190
PERSONAL BENEFITS:				
12.1	Civilian	17	18	19
21.0	Travel and Transportation of Persons	6	34	36
22.0	Transportation of Things	2	3	3
23.0	Rent, Communications, and Utilities	58	65	65
24.0	Printing and Reproduction	7	10	12
25.0	Other Services	502	489	519
26.0	Supplies and Materials	2	6	6
31.0	Equipment	-	-	-
33.0	Loans & Investments	198,228	203,500	183,500
43.0	Interest and Dividends	43,214	44,259	46,750
99.0	Total Obligations	242,208	248,564	231,100

CONSOLIDATED SCHEDULE OF PERMANENT POSITIONS PAID FROM FUNDS AVAILABLE TO THE NATIONAL CREDIT UNION ADMINISTRATION

Detail of Permanent Positions

	1985 Actual	1986 Estimate	1987 Estimate
Executive Level III	1	1	1
Executive Level IV	2	2	2
Subtotal	3	3	3
ES-6	3	3	3
ES-5	3	3	3
ES-4	3	3	3
ES-3	2	2	2
ES-2	2	2	2
Subtotal	13	13	13
GS/GM 15	15	17	18
GS/GM 14	33	33	35
GS/GM 13	62	64	66
Subtotal	110	114	119
GS 12	183	188	188
GS 11	133	135	136
GS 9	41	45	51
GS 8	7	7	7
GS 7	39	45	52
GS 6	25	25	25
GS 5	16	20	22
GS 4	23	23	23
GS 3	5	4	4
Subtotal	472	492	508

Grades established by the NCUA Board for the Central Liquidity Facility comparable to GS grades.

	1985 Actual	1986 Estimate	1987 Estimate
ES-3	1	1	1
GM 14	4	4	4
GS 8	1	1	1
Subtotal	6	6	6
Total Permanent Positions	604	628	649
Unfilled Positions, End of Year	-8	-13	-8
TOTAL PERMANENT EMPLOYMENT, END OF YEAR	596	615	641

TUESDAY, FEBRUARY 25, 1986.

SELECTIVE SERVICE SYSTEM

WITNESSES

THOMAS K. TURNAGE, DIRECTOR
G. HUNTINGTON BANISTER, CONTROLLER

Mr. BOLAND. We have a compressed schedule this year. All appropriations subcommittees have such a schedule as a result of Gramm-Rudman, so we have to move as expeditiously as we can.

We are delighted to welcome today Tom Turnage, who is the Director of the Selective Service System. You have a new Controller, Mr. Huntington Banister. We will put your biography in the record at this point.

[The biographies follows:]

THOMAS K. TURNAGE, DIRECTOR OF SELECTIVE SERVICE

The Honorable Thomas K. Turnage was appointed by the President, confirmed by the Senate and sworn in as Director, Selective Service on 30 October 1981. He retired as a Major General the previous day from military service which extended over thirty-nine years.

Prior to his appointment as Director, he was serving in the Pentagon on special tour with the Deputy Assistant Secretary of Defense for Reserve Affairs. His principal focus was to enhance the effectiveness of training and mobilization readiness programs for the Selected Reserve of all Services.

In July 1981, he was appointed Executive Officer of the Presidentially-created Military Manpower Task Force. Chaired by Defense Secretary Weinberger, this Task Force was charged with reviewing all aspects of manpower requirements and conditions in the Armed Forces.

General Turnage was commissioned through the ROTC Program in 1942 and subsequently assigned to all three of the Army's Components—Reserve, Active, and National Guard. He experienced combat as an infantry officer during World War II and again in the Korean conflict. He also served as the Deputy Commanding General of the Military Department, California, as well as Commander of the 40th Infantry Division (Mechanized) on two different occasions.

In addition to the Combat Infantry Badge (with star), he has been awarded the Distinguished Service Medal, Defense Superior Service Medal, Legion of Merit with Oak Leaf Cluster, Bronze Star, Meritorious Service Medal, Korean Presidential Unit Citation and numerous service medals reflecting two wars and four tours of active duty.

He received his BS in Marketing from UCLA and an MS in International Relations from George Washington University. He is a graduate of the Army War College and the Program for Senior Managers in Government at Harvard University. He is active in numerous professional and civic associations.

General Turnage has lectured at the National Defense University and the Army War College. Frequently called upon as a speaker, he has appeared at the Yale Political Union, American Legion Boys Nation, Harvard University, Military Order of the World Wars Youth Conference, National Guard Association of the United States, Veterans of Foreign Wars, Close Up Foundation, the National Defense Executive Reserve and numerous other civic and patriotic organizations.

Born in Texas, General Turnage is married to the former B.J. Smith of Hollywood, California. They have a son and daughter, both living in California. General and Mrs. Turnage reside in Washington, D.C.

G. HUNTINGTON BANISTER, CONTROLLER

G. Huntington Banister was appointed Controller at the National Headquarters of the Selective Service System in June, 1985. He is responsible for the establishment of financial policy for current operations and mobilization planning and for the daily management of the Agency's financial resources.

Mr. Banister gained extensive financial management experience while serving over six years on active duty as a U.S. Army Finance Corps officer. He is a graduate of the Army's Command and General Staff College and the National Defense University's National Security Management Course and is presently a Colonel in the Army Reserve. His Federal civilian service began in 1972 as a budget analyst for the Interstate Commerce Commission. From 1976–1979, he served as the budget officer for the Public Health Service's National Institute on Drug Abuse; and from 1979-1985, he was the financial manager for the Commodity Futures Trading Commission.

Mr. Banister received a Bachelor of Engineering Science degree from the Johns Hopkins University in 1962 and an MBA in finance from the American University in 1976.

He, his wife Linda and their two daughters, Elizabeth and Caroline, reside in Springfield, Virginia.

Mr. **BOLAND**. We are glad to have you. You may be leaving. You are being considered for the new Administrator for the Veterans Administration. That is a bit of a challenge. You have 277 employees and you will have 220,000 when you take over the VA. You have a budget now of $27 million, and you will have a budget of $27 billion with the Veterans Administration. That is quite a leap. Can you handle it all right?

Mr. **TURNAGE**. The fact you make that commitment in numbers is reassuring to me.

OPENING REMARKS

Mr. **BOLAND**. Anyway, this morning we do have before us witnesses from the Selective Service. You are requesting, as you have indicated, $27,474,420 in fiscal year 1987. That is the same level as appropriated in fiscal year 1986. However, as you know, a total of a $1,346,000 has been sequestered from the 1986 appropriation leaving the Selective Service System with a total of $26,128,420 in budget authority for the current fiscal year.

Incidentally, I notice your justification has only a brief reference to Gramm-Rudman and its effect, and nowhere in the justification do you indicate how you will take those reductions. That would be a question you may answer while you give us your statement.

How will you take the $1,346,000? Will that come out of the Reserve Training Force Funds as was initially indicated by a telephone call that was made by our staff to SSS, or will it be taken from other activities and, if so, where? You can indicate that in your statement.

Why don't you go ahead with your statement and we will get into your budget justification.

Mr. **TURNAGE**. Thank you, sir.

Mr. Chairman, this is an abbreviated statement and I would hope it is acceptable. We would have the full statement for the record.

DIRECTOR'S STATEMENT

Mr. **BOLAND**. Sure. That is fine.

Mr. **Turnage**. It is a pleasure to appear here today and report the Selective Service continues to achieve an extraordinarily high rate of registration. Approximately 12 million draft-eligible young men are currently registered, approximately 98.7 percent of the estimated potential for that category. This obviously reflects a high rate of public support for the program.

Congress has played a key role, as usual, in all the support, and in particular I should mention the Thurmond-Montgomery amendment requiring all applicants for jobs in the Executive Branch to be registered if required to do so as a condition of employment.

Selective Service has also been bolstered by the State Solomon amendment type laws which have been passed by several States and are pending in the legislatures of several more. Based on our capability to meet our emergency mission and the successful registration program, we will not request any new funding nor initiate any new programs in fiscal year 1987.

In fact, we are making every effort to identify areas of potential savings and streamlining in order to maximize efficiency and economy in our programs and operations. We will not, however, decrease emphasis on mobilization, readiness nor on our registration improvement program.

A major part of getting young men registered is public awareness, and in this regard we mount intensive television and radio public service announcement campaigns aimed at 18 year old men and their influencers. We also send comprehensive materials to high schools and colleges, and we continue to work with State and local governments for proclamations of support and with other agencies of the U.S. Government to get our message across.

Seven states now require registration as a prerequisite for receipt of State education aid. Many states require registration as a pre-condition to service on the State police force or even admission to the State bar.

Such requirements make our job easier and enhance equity in the system. Our readiness to perform our mobilization mission supplying manpower in time of national emergency, continues to improve. Presently 10,452 of our 11,000 appointed board volunteers are now trained. Those who are not trained represent new members who will be trained in the coming year.

Training of our reserve forces officers remains one of our highest priorities. The 728 officers are vital to successful mobilization operations. Our mobilization plans include immediate office expansion from nine to 575 sites and an increase of from less than 300 people to more than 5,200. We continue to train our reserve forces officers in the system to be used in time of emergency and to mobilize the necessary manpower for our national defense.

Those officers have received detailed training on how to constitute the field structure in time of mobilization, and they participate in an exercise and test of readiness to perform these duties. Our registration improvement program continues to move forward and we are now concentrating our efforts to target cities in the geographical areas where our short falls are the greatest.

We have commenced a tape match with the Department of Education on their Pell Grant applicants and recipients, thus giving us a cross section or check on whether these millions of young men are, in fact, in compliance with the Solomon Amendment.

Our compliance program continues to gain in effectiveness as we expand the data we receive by matching lists with the Department of Defense, the Coast Guard, the Veterans' Administration, the Department of Education, the Department of Transportation, voter registration lists and the Department of Motor Vehicle lists from nearly all the states.

Over a million registrations have been generated by our compliance program as of December, 1985. Our efforts to produce better and better registration compliance has another side.

SERVING THE PUBLIC

The number of public inquiries grows proportionately as the number of programs requiring registration as a condition of receiving the benefits increases. The use of our toll-free number continues to increase. In order to meet the demand, resources have been shifted from other functions into the public service area and we have contracted out some routine, non-technical tasks to private firms.

This simply means we are handling an increasing work load with the same number of personnel. In the area of induction and claims processing, in coordination with the Department of Defense, we are compiling a list of obvious physically disqualifying conditions which would render a registrant unacceptable for military service.

With this list, we will be able to establish procedures wherein a person with an obvious disqualifying condition could be classified without undergoing an armed forces physical examination.

We are also developing alternative methods of induction for use after the initial surge of mobilization draft to provide for a more orderly processing of conscription. Our alternative service program is undergoing further testing and refining, the latest being automated case tracking and monitoring which has been tested and found to be effective.

DATA PROCESSING AND CONCLUSION

We continue to process almost two million new registrations a year. Additionally, changes of addresses are posted on a continuous basis in order to ensure that we can reach the draft eligible individuals in time of emergency. I am pleased to report that our system remains ready to accomplish its basic mission and to maintain a capability to furnish the required manpower on time to the Department of Defense using a system which is both consistent and fair.

I am now ready to respond to questions and I think, sir, that your first request was to give an insight into how we would allocate the reductions.

[The statement of Mr. Turnage follows:]

FULL STATEMENT

Mr. Chairman, distinguished members of the Subcommittee, I am pleased to come before you again to report that our Nation's Selective Service System is in a high state of readiness to perform its mission. As before, we continue to maintain a high registration compliance rate among our draft-eligibles (20 years and older) at 98.7%. There are approximately 12,000,000 of these draft-eligibles registered. This fact mirrors the high rate of public support and acceptance of the Selective Service program. Of course, we do not achieve these objectives in a vacuum and the support of the Congress has been excellent in every respect. In particular, I would like to mention the Thurmond-Montgomery Amendment requiring all male applicants for jobs in the Executive Branch to be registered as a condition of employment. The effectiveness of our program has been bolstered also by the passage of Solomon-type amendments in the states, which now number seven, with several measures pending in state legislatures. Our two main thrusts will be on mobilization readiness and registration improvement. In both cases we seek to improve accomplishments to date. As you know, we are not requesting any additional funding nor are we initiating any new programs next year. We have made every effort to identify areas of potential savings and are streamlining all our operations in order to maximize efficiency and economy in our basic programs and operations.

PUBLIC AWARENESS

We conduct an intensive public awareness program to make young men and their influencers aware of the registration requirement. This is a constant challenge, since there are almost 2 million men who turn 18 each year at the rate of 5,000 per day. We rely heavily on TV and radio public service announcement campaigns as well as comprehensive mailings to high schools and colleges to make young men aware of their legal requirement to register. We also make every effort to communicate with our growing Hispanic and Asian population. A vigorous public awareness program is vital to the success of our mission.

REGISTRATION IMPROVEMENT

Our Registration Improvement Program continues to move forward and we are now concentrating our efforts on the target cities in geographical areas where our registration shortfalls are the greatest. In another major effort this year, we are processing tapes received from the Department of Education containing the names of applicants for Pell Grants as well as those receiving the grants. Since Federal student aid monies are limited, and may become more limited, we feel it is both just and proper that these taxpayers' funds go only to those men who obey the law and register with Selective Service. Matching of tapes will give us a check on compliance with the Solomon Amendment for the millions of young men who apply for these funds every year. The Office of Personnel Management and the Postal Service may also begin tape matches with us in the months ahead. This would give us a further check on the compliance of thousands of additional young men. Moreover, we will continue to match lists from the Department of Defense, the Veterans Administration, the Department of Transportation, Motor Vehicle Departments from nearly all the states and numerous voter registration lists. Males whose names are not found on our registration list will be sent compliance letters. This method has proven to be effective and such letters have resulted in over a million registrations as of December 1985. We intend to improve registration and compliance levels throughout the country. We are tailoring such efforts to the point where they will be most effective to the local level. To accomplish this we coordinate closely the efforts of our State Directors, Reserve Forces Officers, and uncompensated board members.

All of these things are being done to strive for maximum adherence to the law with its resultant enhancement of equity in the system. In the event of a national emergency each man who is not registered increases the vulnerability for service of those who obey the law. Thus, nonregistration is not a victimless crime.

PUBLIC SERVICE

Our efforts to produce better registration compliance has another side, however. The number of public inquiries and requests for registration information increases proportionally with the addition of new of programs requiring registration as a condition for receiving benefits. The use of our toll-free number continues to be used on an increasing basis and, in order to meet that growing demand, we have added toll free lines during this fiscal year to include the States of Hawaii and Alaska. Further, in order to handle these calls efficiently, our Data Management Center has parceled out routine, non-technical tasks to private firms. This results in the accommodation of an increased workload without increasing personnel support. We responded to 288,712 calls during Fiscal Year 1985 and we project an increase to 400,000 calls during Fiscal Year 1986.

AUTOMATED DATA PROCESSING

Selective Service ADP facilities include the Data Management Center in Illinois and the Computer Center in Virginia. The Data Management Center provides the data entry, error correction, mail, logistics, and computer operations support required to process continuous registration and inquiries from the public via the toll-free lines. The Computer Center provides a system development and enhancement capability in support of registration activities and administrative functions. We continue to process about 2,000,000 new registrations a year at the Data Management Center. Additionally, changes of address for prior registrations are posted on a continuous basis in order to insure that we can reach the registrants in time of emergency.

READINESS AND MOBILIZATION

The readiness of volunteer Local and District Appeal Board members continues to improve. Presently, our board structure is at 95 per cent fill and 10,452 of the 11,040 appointed board member volunteers are trained. Those who are not trained represent new members who will be trained in the coming year.

The readiness of the 728 Reserve Forces Officers who provide the necessary leadership to activate the field operating system and assist in the expansion of our capabilities in time of mobilization also continued to improve. They have received detailed training on how to reconstitute the field structure in time of mobilization and have participated in joint exercises to test the call up system. These officers would immediately expand our system from the peacetime structure of 9 sites to 575 sites during mobilization and be fully operational in three days. They have also received instruction on the hiring and training of the additional 4900 personal required to operate the system. This readiness will continue to be tested in exercises during the next fiscal year.

INDUCTION AND CLAIMS

In the area of induction and claims processing, we are compiling in coordination with the Department of Defense a list of obvious physically disqualifying conditions which would render a registrant unacceptable for military service. With this list, we will be able to establish procedures wherein a person with an obvious disqualifying condition could be classified without undergoing an armed forces physical examination. We are also developing alternative methods of induction for use after the initial surge of a mobilization draft which will provide for the more orderly processing of conscription.

Our Alternative Service Program is undergoing further testing and refining. The automated case tracking and monitoring has been tested and found to be effective, increasing our readiness in this area as well.

CONCLUSION

It is very pleasing to me to again be able to report that our System remains ready to accomplish its basic mission — that of providing manpower in wartime or emergency, on time, and in the numbers requested by the Department of Defense.

Thank you, and I am now ready to respond to your questions.

GRAMM-RUDMAN

Mr. Boland. What is the answer to the sequestration of $1.346 million? Where are you getting it? Incidentally, it is the first time I have ever seen a statement where no figures are mentioned. I could almost give you what you ask and we could walk out of this room, as a matter of fact. I know in the formal statement and in the justification you are requesting particular dollar amounts, but the justifications beginning on page 4 and ending on page 15 describing the particular activities of the Selective Service Service: registration, public awareness, registrant information and management systems, automated data processing, and reserve forces, don't have attached a single number to any one of these functions. We would like to have you attach what you are spending in these areas.

We would like to have you, for the record, indicate what particular amounts are spent in these areas. We asked you to do that last year, incidentally. We are asking you again to do it this year. Don't let me come back here next year and find out it has not been done.

Let's find out what these particular activities and functions costs. Now, where are you getting the $1,346,000? From what activity are you taking that to cover the 4.9 percent sequestration?

Mr. Turnage. First, Mr. Chairman, let me suggest that if that was a request that you made last year, it was an oversight on my part. We not only tried to comply with your requirements, but the spirit of those requirements. So please forgive us and I will be sure to do that next year.

Mr. Boland. That is fine. I want to remind you of it so you won't forget it again.

Mr. Turnage. The annual training for reserve officers has been reduced from 15 days to 13 days and, in addition to this reduction in days, regional conferences have been condensed to three-day State conferences.

Mr. Boland. How much are you anticipating saving in those particular areas?

Mr. Turnage. For the reserve forces program, overall for 1986, the savings would be $430,000.

Mr. Banister. Approximately between four to five hundred thousand; that is correct. In general terms, the savings are due to the scaling down of our programs. This translates into approximately $575,000 coming out of compensation and benefits, $240,000 out of our travel monies, about $230,000 out of other services and a reduction of $119,000 in rents and communication, most of which is postage. Also we plan a general scaling down of our overall administrative expenses, primarily in the areas of printing, supplies and equipment.

Mr. Boland. The indication, of course, is that it is not all coming from the Reserve Officers Program at all.

Mr. Turnage. That is correct, sir.

COMMENT PERIOD FOR NEW REGULATIONS

Mr. Boland. All right. On January 14, I received a letter from the National Interreligious Service Board for Conscientious Objectors voicing their concern that the Selective Service had published new regulations with only a 30-day comment period. That comment period began on December 27. Their concern, which I must say was well taken, was that given the holiday season and the time it takes before these changes will be recognized in the Federal Register, 30 days appeared to be much too short a period of time.

In the past, Selective Service, as I understand it, has allowed 60 days for comment. Why was there only permission for a 30-day comment period when you published these changes in the Federal Register on December 27?

Mr. **Turnage**. I was not aware that the previous pattern had always been 60 days. I thought 30 days met the compliance or the requirement of the law, sir. After we received an indication of your concern, we did, in fact, extend it to 60 days. At the same time we replied to you that we advised that organization that the extension had been accomplished.

DRAFT BOARD HEARINGS

Mr. **Boland**. Of course, I was not the only protester. There were a number of other protesters, too, in conjunction with what our position was. I think the Legislative Committee and the Veterans Affairs Committee, and a number of organizations were concerned about it. Anyhow, you corrected that one.

Another concern that is being expressed is the closing of draft board hearings. Why is this being done?

Mr. **Turnage**. I think there are a number of reasons for it, sir. First of all, if an individual goes before a draft board hearing now, he has the right to bring advisors and the right to bring witnesses. In effect, to that extent, it is not closed. He can have those people there who can give him expertise or assistance in the hearing process.

There are concerns for the decorum that is desirable in a board proceeding, and concerns about the effect that the public would have on the members of the board and, in fact, on the individual who is meeting the board, particularly if their attitude was adversarial in nature. It may impact on the ability to get the most objective and most forthright and equitable hearing.

These are some of the issues that we considered important.

Mr. **Boland**. Was that last reason the controlling force?

Mr. **Turnage**. I am not sure if one of them was the controlling force or all of them were considered as part of the process.

Mr. **Boland**. Were draft board hearings ever closed in the past?

Mr. **Turnage**. Yes, sir. When we allow an individual to have witnesses and expertise there to assist them, I don't consider it closed in that sense, sir, but simply not open to the public. Before 1982, board proceedings were substantially in accordance with the process which we are recommending now.

It was in 1982 through the current period that the public was invited, or it was open on the basis of the will of the individual meeting the board.

CLASSIFICATION INFORMATION BOOKLET

Mr. **Boland**. Last year, you remember, we had a discussion about the availability of the classification information booklet at the local post office. Basically, your position and the Post Office's position was not to provide for "over-the-counter" distribution, but possibly to put the booklets in a rack in the Post Office lobby. You suggested an additional $3,113,825 cost to the Selective Service to implement the Committee's request.

That figure is noted on page 300 of last year's hearings and is made up of a number of elements. One of those elements is a $1,125,000 to print 7.5 million copies of the booklet. Is that really an additional cost to the Selective Service System? Don't you have to reprint the booklets anyway?

Mr. **Turnage**. We would not have to print them perhaps in the same number, Mr. Chairman. The fact is the majority of the cost, aside from that figure you suggested, went to the monthly fee that the Post Office said would be required in order to compensate for having the service available. Now, the printing would be a one-time outlay in any event. The balance of the cost would be, as I suggested, the administrative handling of it.

Mr. **Boland**. Looking at page 300 of last year, you stated that printing of 7.5 million copies at 15 cents each would cost $1,125,000, and the United States Postal Service cost to make booklets available in the lobby was $1,810,961. The distribution charge was $309,864 for a total of $3,245,825. What would be the necessity of printing a great number of additional booklets just to put them in the racks at the post office?

Mr. **Turnage**. First of all, in keeping with current mobilization requirements, in the event we had to initiate the system tomorrow morning as a result of the decision of the Congress, we would have to have those booklets available immediately so that they could be distributed to people who are seeking additional information about their options, it would have to be something that is immediately available.

They would have to be printed in any event. But moreover, we have reprinted that booklet now, but in smaller numbers and have it available. As a matter of fact, in October, November, and December of this last year we ran a test, a separate test, knowing your interest in this subject.

We sent out 300,000 notifications of the availability of these booklets. What we did was to send notification along with the acknowledgment letters that we normally send to an individual who registers with our system. We sent a separate postcard stating that we had a new information booklet available with regard to rights and relating to conscription. If the individual wanted one of the booklets, return of the card was requested and we would respond accordingly. After having sent out 300,000 of them, we got back 9,561 requests. That amounts to 3.2 percent.

We found most of these responses came from California, New York, Texas, and Georgia. We also found out that, as a result of the printing process that we went through to print, the new booklet cost slightly more than the booklet which had been projected in the figures that were provided two years ago.

Mr. **Boland**. How many of those booklets are presently available?

Col. **DeWire**. We printed, I think, 40,000 copies, which would leave us about 30,000.

NUMBER OF REGISTRANTS

Mr. **Boland**. On page 4 of the justifications, you indicate the total number of gross registrations as of December 31, 1985 exceeded 15.4 million. As of that date, what was the estimated total number of young men that should have registered and did not, based on the census figures for all years of eligible birth?

Mr. **Turnage**. I would like to make that a matter of record, if I could, Mr. Chairman. I will explain why. The figures I have here don't reflect that and the reason they don't is because as of 1 January this year, we dropped out the first year of birth group which started in this program. That is, the cohort born in 1960 no longer is a part of the draft eligible group. When we picked up the 1968 year birth group we dropped out the 1960 birth group. While the gross number was 15.4 million, we don't have that number now because of that fact.

[The following was provided for the record:]

Non-Registrants

At the end of December 1985 an estimated 15,973,000 men in the eight year group 1960 through 1967 were required to be registered. Of this number, an estimated 532,000 men, 3.3% had not registered. Over 99% of the draft eligible year groups (1960 through 1965) were registered as required.

Mr. **Boland**. On page 5 of the justifications you indicate that there are still substantial short falls of registrants in major metropolitan areas of the country. We have discussed that particular problem before. As your justifications point out, anyone who does not register is unlikely to be called on for the first major mobilization drive if an emergency does occur.

That, of course, creates a terrible injustice and inequity in the system. You indicate that an estimated 30 percent of registration shortfalls in the birth groups 1966 and 1967 are located in these major metropolitan areas. Can you list for the record the top 20 major metropolitan areas, ranking them from 1 to 20 on the basis of percentage of non-compliance?

Mr. **Turnage**. We will do so, sir.

[The information follows:]

TOP 20 MAJOR METROPOLITAN AREAS YEAR OF BIRTH GROUPS 1966 and 1967 DATA AS OF DEC. 31, 1985

City and State	Estimated shortfall	Percent of national shortfall
Los Angeles, CA	33,455	7.5
San Diego, CA	18,538	4.1
New York City, NY	15,470	3.4
Chicago, IL	9,432	2.1
Anaheim, CA	8,799	2.0
Riverside/San Bernardino, CA	6,419	1.4
San Jose, CA	6,401	1.4
Houston, TX	5,978	1.3
San Francisco/Oakland, CA	5,819	1.3
Memphis, TN	4,969	1.1
Miami, FL	4,417	1.0
Philadelphia, PA	3,795	8
Honolulu, HI	3,329	7
Middlesex, MA	3,145	7

TOP 20 MAJOR METROPOLITAN AREAS YEAR OF BIRTH GROUPS 1966 and 1967 DATA AS OF DEC. 31, 1985—Continued

City and State	Estimated shortfall	Percent of national shortfall
Phoenix, AZ	3,088	.7
Dallas/Fort Worth, TX	2,860	.6
Norfolk/Virginia Beach, VA	2,801	.6
Washington, DC	2,671	.6
Denver/Boulder, CO	2,172	.5
Boston, MA	2,155	.5
Total in top 20 cities	145,713	32.5

AUTOMATED DATA PROCESSING

Mr. **Boland.** On page 6 of the justifications under the heading "Responding to Registrants' Inquiries," you discussed the fact that routine non-technical tasks at the data management center were contracted out to private firms. On page 11 under the automated data processing you discuss the ADP program in some detail.

In last year's hearings, on page 307 under contracting out on ADP work, I asked you whether you had performed contract analysis to determine how in-house data processing costs compared to contracting for these services. You indicated that you would supply that for the record. That response is on page 307 and at the beginning of page 308.

The bottom line was that you indicated that an analysis covering a five week period revealed that the costs for contractor support are about 62 percent higher than using Selective Service System's own employees. That, of course, is quite a substantial increase over the in-house operation.

Are you saying that if we give you money to hire additional in-house employees for this type of ADP work, and assuming that OMB would release the positions to you, that we would save 62 percent just on this one activity? Is that what the response in the record indicates?

Mr. **Johnsen.** I am not sure about the savings, but the savings would be strictly on this activity.

Mr. **Boland.** What would be the savings?

Mr. **Johnsen.** We can provide that for the record. I don't have that.

Mr. **Boland.** You indicated here clearly on the record the savings would be about 62 percent if you had in-house personnel to do it.

Mr. **Johnsen.** In terms of dollars, I can't give you that right now, but we can provide that.

[The information follows:]

Savings by Hiring Additional Employees for ADP Work Versus Contracting Out

The cost analysis, which was provided in the record of last year's hearing, was conducted over a five-week period in 1984. Based upon that analysis, it was estimated that the use of Selective Service personnel compared with contractor support would save $2,970 over the five-week period or 31 percent of the cost of contracting out certain routine ADP tasks. Assuming that our earlier analysis is reflective of current operations and that the Office of Management and Budget provided an increase in our personnel ceiling, it is estimated that in FY 1987 we could save approximately $30,000 of the $100,000 anticipated to be spent on contractor support.

COST OF REGISTRATION

Mr. **Boland**. Let me come back for a moment to programmatic areas. Beginning on page 4 with registration, there are no dollar numbers attached to those activities. As I have indicated previously, last year we asked you during the hearings to give us some of those numbers and you did. What about beginning with registration?

Last year on page 304 of the hearing you indicated that your estimate for fiscal year 1986 for registration costs was $2,066,000. That was a drop of almost a quarter of a million dollars from the then-current 1985 estimate of $2,263,000. So the question is, what was the actual cost of registration in 1985 and what is your current estimate for registration costs in 1986?

Mr. **Banister**. Mr. Chairman, in 1985 we spent $2,369,000. Our present estimate for fiscal year 1986 under Gramm-Rudman is $2,412,000, and we are projecting an estimate for 1987 of $2,583,000.

Mr. **Boland**. Last year's estimate for fiscal year 1986 for registration was $2,066,000.

Mr. **Banister**. That is correct.

Mr. **Boland**. You now have it up to $2,412,000, even with Gramm-Rudman.

Mr. **Banister**. Yes, sir. When last year's estimate was developed, we had planned on being able to use third class mail for our acknowledgement letters. As a result of the notification we received from the Postal Service we could not use third class mail, we were forced to go back to first class mailings.

COMPLIANCE COSTS

Mr. **Boland**. What about compliance costs, which I believe are carried within the registration cost totals? Last year compliance costs were estimated at $529,000 in 1986 and $509,000 in 1985. What is your current estimate for 1986 and what was your actual cost in 1985?

Mr. **Banister**. In 1985, we spent $672,000. In 1986, we are forecasting $876,000. One of the reasons for the increase in 1985 is that we mailed out a fourth compliance letter. The increased costs in 1986 are due to the increased cost of postage, the replenishing of supplies to print stationery and envelopes and the increased cost related to the commercial and DMV lists.

PUBLIC AWARENESS

Mr. **Boland**. Then let me ask the same question with reference to public awareness, which is reflected on page 7. Although you don't have the figures from last year for what you had in the budget for 1986, why don't you give us that now. Then tell us what the current estimate is against the request for 1986.

Mr. **Banister**. Mr. Chairman, in 1985, we expended $846,000 under our public awareness program. We are now forecasting under Gramm-Rudman $379,000 and approximately the same level for 1987.

REGISTRANT INFORMATION MANAGEMENT SYSTEMS

Mr. **Boland**. All right. Can we have the same numbers for the Registrant Information Management Systems on page 9 of the justification and for the Automated Data Processing on page 11 of the justification?

Mr. **Banister**. For the Registrant Information Management System, Mr. Chairman, I would like to provide that for the record because that involves some prorations and a little more in-depth cost analysis.

[The information follows:

Cost of Registrant Information Management Systems

The Registrant Information Management Systems cost approximately $665,000 in Fiscal Year 1985, and it is estimated to cost $577,000 in Fiscal Year 1986 and $551,000 in Fiscal Year 1987. The majority of these costs are personnel related expenses with a small amount for printing, equipment and software.

AUTOMATED DATA PROCESSING COSTS

Mr. **Banister**. Regarding the automated data processing services program, last year we expended $1,544,000. We are projecting an expenditure of about $1,622,000 this year and approximately the same level in 1987. That is exclusive of our personnel costs.

Mr. **Boland**. Is the $1,622,000 for 1986 after Gramm-Rudman?

Mr. **Banister**. Yes sir, it is. In fact, Mr. Chairman, I should add that the President's budget prior to Gramm-Rudman is only slightly different because that is a program in which many of the costs are fixed costs.

RESERVE FORCES AND MOBILIZATION EXERCISES

Mr. **Boland**. With respect to the reserve forces reflected on page 14 of the justification, and at the bottom of that page, I notice that the justification indicates that the goal for fiscal year 1986 and fiscal year 1987 is a more comprehensive mastery of skills to mobilize the agency. You go on to describe what you hope to get done in that area and, back on page 10 under the exercise and procedures heading, you indicate that you plan to conduct mobilization exercises throughout the system in this fiscal year and next fiscal year. This includes a 2-day exercise for the national headquarters and six regional headquarters.

The question is, is this the area that will be basically eliminated if you have to apply the Gramm-Rudman-Hollings reduction of $1,346,000?

Mr. **Turnage**. There will be a restructuring and reorientation with regard to the participation and the mobilization exercise, although it will not be eliminated, sir. It will be lesser in scope simply because of the limitations involved.

PERSONNEL COMPENSATION

Mr. **Boland**. On page 18 of the justifications, that table carries an estimate for total personnel compensation of $13,974,000. The estimate carried in last year's budget for that activity was $14,070,000. We discussed this last year. As you know, you cannot transfer funds from this activity to other activities of the Selective Service System. The Selective Service breached a section of the law last year.

It appears there could be a violation this year of about $100,000. In fact, the Committee added $396,000 to this account so there was no possibility of a reduction to the original projection of $14,070,000. Do you have an explanation of these potential problems?

Mr. **Banister**. Mr. Chairman, in fiscal year 1985, it appears that the amount that was requested in the justification was $14,810,000. During the Congressional mark-up of that request we had a discretionary reduction of $100,000. The $200,000 was directed to come from other services and $50,000 was directed to come from our travel request.

We took that discretionary reduction in 1985 out of our compensation and benefits account leaving an estimate for that account of $14,710,000. The amount that we actually expended in that account was $14,688,000 but in the aggregate we lapsed in that fiscal year $381,000. From that account for which there was a limitation or the floor, we lapsed $22,000, which was not transferred to other object classes.

Mr. **Boland**. What about an explanation for 1986?

Mr. **Banister**. In 1986, we had in the President's budget an estimate of $15,022,000. However, there was a little discrepancy between the House mark-up of the 1986 budget and the Senate mark-up. There was a difference in the language. The President submitted a budget amendment of $280,000 for the restoration of the proposed five-percent pay cut. In addition to those funds, $116,000 was earmarked by the Senate for other increased operating costs. The House Committee report indicated that $396,000 was for the pay cut. However, in my discussions with your staff, this area sort of remained a grey area as far as the House mark-up was concerned.

When the bill went before the Conference Committee, there was a reduction out of our total salaries and expenses of $306,000. We would actually have taken the amount out of our compensation and benefits account, leaving a floor, if you will, of $15,112,000 assuming that the House recommended increase of $396,000 was all applied to salaries.

Right now, prior to Gramm-Rudman, we are displaying compensation and benefits of $15,139,000. So the way we plan to expend these funds would not be in violation of the Congressional limitation. I may add, however, that the reduction due to Gramm-Rudman is in total salaries and expenses. Right now we are forecasting a reduction of $576,000 out of our compensation and benefits account, hoping that our cost saving initiatives do come to pass. That amount may actually vary somewhat as we execute our budget this year.

Mr. **Boland**. Okay. Thank you very much. For the relatively short time you have been with the Selective Service System as the Controller, Mr. Banister, I think you have done an excellent job on your explanations. We appreciate it.

Mr. **Banister**. Thank you.

Mr. **Boland**. Mr. Lewis.

Mr. **Lewis**. Thank you, Mr. Chairman. You may or may not have noticed that Mr. Turnage is, among other things in his distinguished background, a graduate of UCLA.

Mr. **Boland**. Won't do him a bit of good here.

Mr. **Lewis**. I am not sure whether to extend my condolences to you in your new responsibilities.

Mr. **Boland**. Condolences have to go to Mr. Turnage when he goes to VA.

RESERVE FORCES OFFICERS

Mr. **Lewis**. I have one question before just commenting about your service before we finish this hearing. Your own background would evidence a lot of interest and empathy for funding problems, especially among our reserves where for some time we have had a very successful program that involved people taking reserve training on a monthly basis and receiving some compensation; that serving as almost a pre-service GI bill. It is my view that this program has had a very positive effect, not just upon our potential in terms of reserves, but the availability of educational opportunity for a lot of young people, it has been very significant, too.

There is a lot of conversation, and some recommended policy changes that would significantly impact the funding of those kinds of programs. Would you comment on what is happening here.

Mr. **Turnage**. There are two or three aspects of that, sir, that I feel are significant. First of all, by design based upon my own interest and background, we have emphasized that program and the quality of people we have been able to bring in. We found fortunately that we are in a buyer's market and we have been continuously able to upgrade the quality of the people that we draw into the system.

Moreover, we have emphasized the professional training that is available to them and we have increased their requirements for promotion. For example, for promotion to colonel, in contrast to previous alternatives available to Selective Service members, we now require Command & General Staff College or the equivalents the same as all other reserve officers.

We have influenced the action to the point where we think we are getting more of our people trained through resident service schools. Moreover, the National Guard Officers assigned to us can be trained in resident programs under funding provided by that component. We have enhanced the professionalism of these officers also by in-house training and by the supervision proceedings that we have established. We also conduct a new officer training program to provide initial orientation upon entering the system.

One other initiative in progress over the last four years, 1981 to the present, is a change in the character of the system where we have about 38 less colonels than before, and about 28 less lieutenant colonels than before, resulting in more majors and captains with emphasis on youth and hopefully more vigor. They are also at a level which is more commensurate with the kinds of jobs they will be doing upon mobilization if they were called.

All of these are some of the policies associated with our dedication to upgrade the system. One result of the sequestration of funds and also the limited funding for the future is to cut the full time training from 15 days to 13 days, simply as an economic action. It is an action we would prefer not to take, but it is something that we will do simply in order to retain all programs at some kind of lesser intensity as opposed to doing away with any one of them.

Perhaps that will give you some of our concern about our reserve structure. As a matter of fact, we need more of these young people in the system. That was another one of the reasons why we reduced a number of the higher grades so we could bring in more people consistent with the budget. However, we also understand economic reality and this is what we have done as a judgment factor.

GRAMM-RUDMAN

Mr. Lewis. I appreciate those comments.

Mr. Chairman, you have already expressed your concern a number of times about the impact of Gramm-Rudman upon the work of this Subcommittee. I am one of those members on my side of the aisle who happened to vote against Gramm-Rudman for a number of reasons, but that does not set aside the fact we face serious difficulty.

I will be delighted to discuss with you further the costs of challenges facing the Veterans' Administration—indeed, in the years ahead of us, the pain as well as the potential of improving Government services and perhaps significantly reducing the Department's cost outlays. I look forward to working with you.

Thank you, Mr. Chairman.

Mr. Turnage. Thank you, sir.

Mr. Green. Congratulations on your prospective new position.

CLOSING REMARKS

Mr. Boland. This Subcommittee appreciates your directorship of the Selective Service System. I think it has not always been an easy one. It is controversial at times, but I think by and large it has been handled very well.

Mr. Green. Amen.

Mr. Boland. I want to extend the congratulations of the Subcommittee and offer best wishes to Mr. Banister for joining. I am sure Mr. Alvarez will be happy to have you.

Thank you all. Thank you very much.

Mr. Turnage. Sir, I am very pleased about the comment you made about Mr. Banister. We are also pleased with his coming to the agency and I am sure he will be a big asset to us.

Mr. Boland. Thank you. Good luck to you.

[The justifications follow:]

TABLE OF CONTENTS

Page

Introduction

Statement of Program and Performance 1

Summary Statements

Program Highlights 2

Justification and Explanations

Registration 4
Public Awareness 7
Registrant Information and Management System 9
Automated Data Processing 11
Reserve Forces 14

Detailed Material for Appropriations

Appropriation Language Sheet 16
Program and Financing Schedule 17
Schedule of Object Classification 18
Personnel Summary 19
Detail of Permanent Positions Schedule 20
Obligations for Information Technology Systems 21

Other Material for Analysis

Organization Chart 24
Regional Map 25
Public Information Material 26
Registration Form 27
Acknowledgment Letter 28
Verification Letter 30
Reminder Postcard 31
Compliance Letters 33
International Letters 37
Summary of Indictments 39

PROGRAM AND PERFORMANCE

In FY 1987 Selective Service System will continue to register men as they reach 18, maintain a data base of registrant records and conduct a nonregistrant identification program to insure compliance with the law. The processing procedures of the Registrant Information and Management System will continue to be tested and refined to insure that it can fully satisfy the emergency manpower needs of the Armed Forces.

Selective Service will continue the training of uncompensated board members and the preparation of the Reserve and National Guard officers for their mobilization assignments in specific positions within the System. The System will exercise its mobilization plans to insure a high readiness capability in the event of a mobilization.

PROGRAM HIGHLIGHTS

Dual emphasis on mobilization readiness and registration improvement continue as the mainstay of Selective Service System's (SSS) activities during FY 1986. As a result, the level of mobilization readiness of Selective Service elements at both the national and state levels remains high. Registration figures for the draft eligible groups, i.e., year of birth groups 1961-66 is at 98.6 percent. In addition, we have improved our registration information processing and retrieval capabilities so that we can furnish better and faster information services to the public.

Awareness of the registration requirement is a major thrust of the Agency's activities. Efforts have been targeted at the 17-19 year olds to assure that all men are registered before reaching age 20, the prime year of vulnerability to a draft. Mandatory registration programs for SSS personnel at state, regional and national levels include coordinated efforts in public affairs, direct public contact for awareness and compliance, inter-agency support activity and state legislative and governmental support initiatives. We have accomplished a substantial increase in production and distribution of public service materials and have made significant inroads to youth consciousness of its obligation to register. Evidence of public acceptance of the registration law was manifest throughout the past year as more and more elected officials - city mayors and state governors - issued proclamations supporting registration. Florida and Louisiana joined a group of other states requiring registration as a prerequisite to receiving state sponsored student financial aid benefits.

During 1985, major gains in the readiness posture of our field structure were achieved through comprehensive training programs and exercises. As of December 31st, 10,452 volunteer members of the local, appeal and civilian review boards had completed their initial training leaving fewer than 600 newly appointed members yet to be trained. During the year, a majority of the local and appeal board members participated in continuation training. We continued the development, testing and evaluation of the automated system that will be used in the administration of the Alternative Service Program. We participated in a joint exercise to evaluate the Agency's ADP plans, policies, and procedures to select inductees, call them for induction and process claims. Reserve Forces Officers completed area office and state headquarters mobilization plans and, for the first time, received comprehensive training in a variety of administrative duties necessary to the reconstitution of the field structure in the event of mobilization. Both operational plans and procedures as well as the supporting administrative framework will be tested in hands-on exercise play in FY 1986 and FY 1987. These exercises provide the most effective means to measure the practical applications of our procedures and are absolutely vital to the preparation for an emergency mobilization.

In FY 1986-87 our registration improvement program will continue to concentrate on target cities in the geographical areas where the registration shortfalls are greatest. By February, 1986, we expect to start obtaining lists of Federal Student Aid applicants and recipients from the Department of Education for action, which, where appropriate, will include referral to the Department of Justice for investigation and prosecution. As Federal student aid funds are limited, it is both just and proper that taxpayers' funds go only to those men who obey the law and register with Selective Service. Registration improvement efforts will also be enhanced by the recent law requiring men applying for Federal employment to be in compliance with the registration requirement.

On January 1, 1986, men born in 1960 were no longer subject to induction under current law. Any man who reaches age 26 without having registered is no longer eligible to register. Selective Service has revised its automated registration processing programs to inform any man who trys to register after reaching age 26 that he is no longer eligible to do so.

The Selective Service System has long been noted for utilizing "grass roots" personnel for overall mission satisfaction. The contributions of our local, part-time personnel, our Reserve Forces Officers and standby board members, continue to be significant in assisting to insure the Agency's success in both registration and mobilization readiness. Our more than 11,000 volunteer board members continue to set a most significant precedent, i.e., being fully trained and mobilization ready, by willingly contributing of their time and talents without compensation. Our trainers for these invaluable resources are the officers of our Reserve Forces Program. The Reserve Forces Officers serve as the backbone of the Agency at the local level and will, should mobilization ever become necessary, provide the manpower and leadership for the reconstitution of all local elements.

In keeping with the desires of the President and the Congress to control Federal outlays, no new initiatives are proposed for FY 1987. Agency programs have been streamlined to ensure cost effective operations in line with projected budget restrictions. This level of funding, although austere, will permit continuation of the programs which are necessary in order to maintain a high degree of mobilization readiness.

REGISTRATION

Since registration was resumed in July 1980, a major challenge to Selective Service has been to reestablish public awareness of the registration requirement, particularly among the almost 5,000 young men turning 18 each day. An effective registration program is required in order for the Agency to respond to its mobilization mission. Registration improvement continues to be a top priority of the Selective Service System for FY 1986 and FY 1987.

The Military Selective Service Act requires the Selective Service System to be prepared to provide needed manpower to the Armed Forces to help ensure the nation's security. In doing so, the agency must exercise proper regard for the nation's economy and the fairness and equity of the processes by which it meets its responsibilities. Without peacetime registration, the Selective Service System would be unable to provide inductees in a timely manner in the event Congress and the President authorize a return to induction. DoD's mobilization timetable requires Selective Service to provide initial inductees at M+13 days.

Registrations by eligible young men have been steadily increasing and gross numbers as of December 31, 1985 exceeded 15.4 million. The gross number of registered individuals who at that time were draft eligible (years of birth 1960 - 1965) was then in excess of 12 million. Although these are laudable figures, the Agency recognizes the need to monitor its accomplishments, identify areas of shortfall, direct special programs at areas below their estimated registrant potential, maintain programs in areas of success, and do everything within its power to assure a positive public image that supports registration. On-time registrations and high overall registration compliance levels are major thrusts of all Selective Service elements, including our Reserve Forces Officers, and uncompensated board members. Also, the assistance and cooperation of officials of other government agencies have been excellent.

Registration Improvement Program. The purpose of the Registration Improvement Program is to provide guidance and direction for all elements of the Agency in order to insure continued high compliance with the registration requirement. Specifically, the FY 1986 Registration Improvement Program is designed to:

- Develop, implement and maintain sustained efforts that transcend public and private sectors in the Agency's 55 governmental jurisdictions.
- Improve on-time registration and compliance levels through efforts at the national, region, state and local levels.
- Initiate programs tailored to specific local needs as identified in priority areas.
- Coordinate the efforts of our Reserve Forces Officers, uncompensated board members, and other government agencies.
- Use resources in an efficient and effective manner.

Registration improvement programs initiated since the revitalization of the Selective Service System in 1980 have had a positive impact on registration compliance levels. Having all eligible young men register within 30 days of their 18th birthday remains a primary goal of the Selective Service System. Significant strides have been made toward accomplishing this goal by the development and implementation of far reaching and innovative registration programs. Statistics reveal that nonregistrants tend to be concentrated in specific areas of the country. The primary thrust of registration activities, therefore, must be directed at the specific areas where the estimated shortfalls are the greatest. An estimated 30 percent of registration shortfalls in YOB groups 1966 and 1967 are located in major metropolitan areas around the country. In FY 1986 and FY 1987 our efforts will be directed in those geographical areas.

Activities in support of these endeavors will involve many volunteer Local and Appeal Board members, all Selective Service State Directors and over 700 Reserve Forces Officers. Local level activities have been tailored to the specific needs of areas where registration responses have not met expectations. Specific activities in response to the need to increase registration levels in those areas have varied. Activities include but are not limited to: sponsoring registration awareness weeks or months in numerous states, cities, and counties; distribution of posters and public information materials to high schools; development of informational brochures and flyers directed to the Hispanic audience; manning information booths at state and local fairs; providing registration opportunities during visits to high schools, colleges, employment agencies, and other organizations; placing supportive public service advertising on buses and other transit vehicles; mailing registration reminders along with employee benefit checks, company newsletters, etc.; and several other activities.

Compliance Program. The Compliance Program continues to strive for maximum adherence to the law requiring registration. Because each man who does not register increases the draft vulnerability of those who do register, failure to register is not a victimless crime. To assure the highest degree of fairness to all our young men, this computer-based program is designed to identify those who are required to register and remind them of their obligations. With the support of state and local governments and other Federal agencies, the Registration Compliance Program continues to have a significant, positive national impact. Potential registrants are identified by name from lists provided by various sources. However, drivers' license records, which Selective Service obtains from almost all of the States and territories, constitute the foundation of this program. Drivers' license records are the source of almost 90 percent of the records processed. In areas identified as having above average registration shortfalls, lists also are obtained from other sources such as high schools and state and local voter registration records. Data provided by the Federal Aviation Administration, the Social Security Administration, the Department of Education, the Department of Defense, the Department of Transportation and the Veterans Administration are also used in the Compliance Program.

The lists of potential registrants are matched with our registration file to eliminate the names of those who have already registered. The remaining names are then matched with DOD and United States Coast Guard lists to eliminate the names of those serving on active duty in the uniformed services. A compliance letter is sent to each man identified as a possible violator. This letter includes a form on which the man may register.

As of December 1985, over a million registrations had been received as a result of the compliance letters. If, after additional letters, the man still fails to register or prove his being exempt from the registration requirement, his name is referred to the Department of Justice for investigation and possible prosecution.

A man must be registered in order to be eligible to obtain Federal student aid pursuant to Title IV of the Higher Education Act (Public Law 97-252 the "Solomon Amendments"). In 1986 we will start obtaining lists of Pell Grant applicants from the Department of Education for processing in the Compliance Program. In addition, lists of

Pell Grant recipients will be checked against the registration file and men who received such grants and remain suspected nonregistrants will be reported to the Department of Education for action, which, where appropriate, will include referral to the Department of Justice for prosecution.

Selective Service is working with the Office of Personnel Management to implement the recent law prohibiting appointment in the Civil Service of men who fail to register with Selective Service. The employment application, SF-171, is being revised to permit men to certify that they are in compliance with the registration requirement.

In 1987, the successful operation of these programs will require the acquisition of new lists, and subsequent monitoring, analyses, and adjustment to meet changing registration patterns.

Responding to Registrant Inquiries. Requests for information from registrants and potential registrants continue to increase as more states enact legislation paralleling Federal law and more institutions establish rules requiring registration as a prerequisite to receiving various forms of financial assistance. During FY1985 the States of Florida and Louisiana enacted legislation requiring proof of registration before granting state funded assistance. North Carolina enacted similar legislation. These States join Tennessee, Illinois, Mississippi, and Massachusetts as having passed such registration supportive laws.

Registrant requests for information needed to satisfy the requirements for participation in the Job Training Partnership Act continue to increase. With stronger emphasis on the registration compliance program, efforts to locate and register young men who have not complied with the requirements of the Military Selective Service Act will intensify. As more cases are investigated, the number of Department of Justice requests for additional information will also increase.

Our toll-free "800" number to the Data Management Center at Great Lakes, Illinois has received wide acceptance and usage. In an effort to keep up with the demand, more toll free lines have been added and the service was expanded in FY1985 to include the States of Alaska and Hawaii. This free and convenient service continues to offer fast response to the public by providing direct contact to Selective Service personnel having immediate access to the records from which information is extracted to answer the caller's question.

During 1985, routine nontechnical tasks at the Data Management Center were contracted out to private firms. Although at a somewhat lesser degree, this practice will continue in FY 1986 and FY 1987. This is being done so that Selective Service employees can be shifted from these research tasks to the registration information area to assist in handling the inquiry workload. By exercising this option, backlogs have been kept to manageable levels without an increase in authorized positions.

The Registration Information Office responded to a total of 276,000 telephone calls from the public during FY 1985. This volume is expected to grow significantly in FY 1986. To be responsive to public inquiries and handle this increased workload, data processing enhancements were instituted to speed up the entry and retrieval of data base information. Address corrections can now be entered from remote terminals, and letters verifying registration are being produced overnight for mailing to registrants the following day.

PUBLIC AWARENESS

Utilizing the funds provided by the Congress in a most cost effective manner, Selective Service has mounted a low-budget yet high-intensity public awareness campaign highlighted by marked cooperation from many segments of the population. Radio and television public service directors, newspaper editors, high school guidance counselors, civic leaders, state and local government officials, theatre and sport celebrities have joined with us to make the registration requirement known to 18-year-old men and their influencers. Their support has greatly enhanced our ability to communicate without additional funds.

And, communicate we must. Public awareness is vital to Selective Service. Without it, our registration statistics would not be as high as they are now, and the equity of the program would not be maintained. We owe it to those men who have registered to make the pool, from which men would be called in an emergency, as complete as possible. The equity issue is crucial to public acceptance of the Selective Service should Congress and the President ever have to reinstate conscription.

That our public awareness program has been successful is evidenced by compliance percentage rates that are in the high 90s. We have been able to communicate not only the registration requirement but also the rationale for registration, and the young men of this country have responded. However, because we are much less controversial than in the past, we are no longer a news story and we receive little, if any, publicity. Yet, each year we must reach a new audience — nearly 2 million men turn 18 each year at the rate of 5,000 per day. Because registration is still not part of their corporate consciousness — not yet automatic at age 18 -- we must continue to remind them of their obligation.

By capitalizing on the successes realized and the support provided to date, and through continual search for new outlets for our public service messages, we will refine and enhance our public awareness program without expending increased resources.

To compensate for the lack of publicity, we have increased our use of radio and television through public service announcements designed to spread the word about registration. We have been able to produce more television campaigns thanks to the generosity of many celebrities who donated their time to make film spots for us. Among those celebrities were television star Scott Baio, Olympic boxer Paul Gonzales, and a number of NFL Pro Bowl players, such as Walter Payton, Dan Marino, and Joe Montana.

Analysis of the amount of play that our TV PSAs received reveal that our spots are enjoying an extremely high rate of usage. Our NFL television PSAs enjoyed a 68 percent play rate in our target cities, and is still being used. The play rate of our PSA featuring television star Scott Baio was 61 percent for the large metropolitan areas where the estimated shortfalls are the greatest. Both of these spots were distributed nationally. This demonstrates the support and cooperation that Selective Service is receiving from the media. The indicated usage level is extremely high for public service advertising. We feel this is the result of producing very imaginative, high quality products.

Radio station public service directors continue to receive our radio spots twice a year. Approximately 7,000 radio stations are offered a package that contains spots targeted for every format — country, rap, a Cindy Lauper imitation, humor and a Beach Boys takeoff. Celebrities like country music star Ricky Skaggs help to make our program even more effective. Comments on response cards have included "excellent" and "send more," with 95 percent usage reflected.

Over 22,000 high schools and 3,500 colleges are mailed a package of our imaginative print materials annually. High school guidance counselors receive a mailing which includes posters, informational brochures for senior men, camera-ready advertising copy for the high school newspaper, National Football League schedules with our registration message, and an order form for additional materials. The college packet consists of camera-ready advertising copy for the newspaper editors.

Ad slicks for daily and weekly newspapers — approximately 9,700 nationwide — are mailed out twice yearly. Clip sheets sent in from these newspapers indicate that our ads are being well-received.

Continuing efforts to have state and local governments issue proclamations supporting Selective Service have generated local publicity and press coverage which helps public awareness of the registration requirement. This is an effective program which will be increased in the coming year. Over 500 proclamations were issued in the last fiscal year with concomitant news opportunities.

The Director continues to spread the registration message through media visits to various cities throughout the country and speaking engagements before civic organizations. During the past year, cities visited have included: Houston; Dallas; Philadelphia; New York City; Boston; Chicago; New Orleans; Los Angeles; Lexington, KY; Atlanta; Miami; Nashville; San Francisco; Birmingham; San Antonio; Denver; Portland, OR; and Phoenix. In these cities, the Director participated in editorial boards and television and radio public affairs programs.

Speaking engagements have included Rotary Clubs, the Yale Political Union, the Military Order of World Wars Youth Leadership Conference, the American Legion's Boys Nation, Maine's Department of Education Conference, the Northern Virginia Reserve Officers Association, the National Guard Association, and the Reserve Officers Association. These activities will continue because they have proved to be both effective and invaluable in communicating the registration message to the public at minimal cost.

We are most appreciative of the support and cooperation that the Selective Service Public Awareness Program receives from the many and varied groups that we depend upon to help us. In the coming year we will continue with the programs that have been described here and will be ever vigilant to develop new ones that will be even more effective. A continuing high registration rate requires a vital, vigorous public awareness program.

REGISTRANT INFORMATION MANAGEMENT SYSTEM (RIMS)

Induction and Claims Processing. RIMS is a registrant processing system which takes advantage of automated data processing technology while preserving the essential quality of individual claim consideration by Local and Appeal Boards. The system, should Congress and the President authorize inductions, integrates the processing of registration, induction and claims information and enables registrants to be scheduled and ordered for induction on a national basis as early as three days following a mobilization. Using the registration and lottery information in the data base, induction orders in the form of a Western Union Mailgram will be sent to registrants, ordering them to report to Military Entrance Processing Stations (MEPS) unless they file a claim for postponement, deferment or exemption. Transportation will be provided by means of a travel warrant attached to the induction order. The registrant data base will be updated daily with claims information and with the results of the MEPS examination and induction processing. Following the data base update, a new induction cycle will be established and new induction orders will be produced.

The RIMS manual contains the procedures and instructions to operate the registrant processing system. Originally published in June, 1983, the manual was updated and reissued in its entirety in November, 1984. The second edition reflects changes and refinements in registrant processing procedures identified through a series of regional training conferences in 1984 and as a result of ongoing staff studies. The changes to the manual were highlighted at the regional training conferences held during the spring and summer of 1985. Analysis of the registrant processing procedures continues and will result in further refinements to the manual as necessary.

In conjunction with the Department of Defense, we are compiling a list of obvious physically disqualifying conditions which would render a registrant unacceptable for military service. We will develop procedures governing the use of this list whereby a registrant might be disqualified for military service on the basis of an obvious physically disqualifying condition and not be required to undergo an armed forces examination. In addition, alternative methods of induction processing will be identified for future development of detailed procedures to be implemented after the initial surge of a mobilization draft.

Alternative Service Program. Men ordered for induction who apply for and receive classifications as conscientious objectors will, in lieu of military service, fulfill their obligations under the Military Selective Service Act by performing civilian work contributing to the maintenance of the national health, safety or interest. The Alternative Service Program has the capability to identify employers who meet the requirements of the law and regulations as they relate to alternative service, place conscientious objectors in appropriate jobs, monitor their performance through their assigned periods of service, and provide a structure of civilian review boards to determine, on request, whether the job assigned to a conscientious objector is appropriate.

Automated case tracking and monitoring within the Alternative Service Program underwent testing during FY 1985 and were found to operate effectively. All elements are undergoing a thorough analysis to refine the procedures and further automate the day-to-day record-keeping functions involved in case tracking and monitoring.

Local, Appeal and Civilian Review Boards. The various boards of the Selective Service System are the heart of the claims, appeals and review process for registrants and alternative service workers. These boards are composed of over 11,000 citizen-volunteers who donate their time to participate in a comprehensive training program designed to ensure fairness and uniformity in their decision-making process. The training program consists of initial training followed by continuation training. Each new member attends an initial training seminar and receives basic instruction in board duties and functions. This basic program utilizes lecture, video tape vignettes, role playing, dicussion, and problem solving. The training is designed to provide the members with a sound foundation upon which advanced continuation training can be built.

The continuation training component is an annual requirement, necessitating the development and administration of an entirely new program each year. Each new continuation training package involves case file deliberation, revision and updating of the members' individual instructional manual, role play of personal appearance cases, audio tape recorded exercises and discussion issues. This training is supplemented by twice-yearly issuances of The Board Reporter, which is a combination of a comprehensive newsletter and a vehicle by which training updates and handbook amendments are conveyed.

As of Dec. 31, 1985 the training status of the board members is as follows:

Board	No. Members Appointed	% Members Trained
Local Boards	10,126	94.8%
District Appeal Boards	469	99.1%
Civilian Review Boards	445	87.2%

Exercising the Plans and Procedures. During FY 1986 and FY 1987 Selective Service will conduct mobilization exercises at each operating level of the System. In FY 1986 a two day exercise will be held for National Headquarters, the six Region Headquarters, and one State Headquarters from each region. The exercise play of National Headquarters including the prototype Area Office, one Region, and one State Headquarters will be incorporated into the biennial joint DoD/civilian agency exercise (PORTCALL/REX 86 ALPHA). The exercises for the remaining five Regions and five other State Headquarters will be held later in FY 1986, subject to the availability of funds.

The exercise program for FY 1987 calls for the activation of each Area and Alternative Service Office together with one associated Local and Civilian Review Board. These exercises are scheduled for the period January to September 1987 and represent an ambitious undertaking. They will exercise our field structure on a scale not previously attempted. Approximately 450 Selective Service Reserve Forces Officers and 1500 recruiting personnel will assume their mobilization assignments to activate the offices. Approximately 2400 volunteer board members will conduct board meetings to process simulated claims of registrants and alternative service workers. In addition, Reserve Forces Officers will also serve as exercise coordinators, controlling the exercise play and collecting the data.

Every effort will be made to keep costs at a minimum. For the participating local board members, the exercise will be scheduled as their annual continuation training meeting. For Reserve Forces Officers, the exercise will be performed as part of the regular training program. The regularly scheduled annual visit to the Area Office will be incorporated into the exercise, thereby eliminating the need for two trips to the Area Offices. In this manner the exercise can be conducted within budget constraints with no additional funds required.

AUTOMATED DATA PROCESSING

In the years since revitalization in 1980, automation has been a key factor contributing to the significant strides made in increasing personnel productivity, attaining the capability to meet Department of Defense untrained manpower needs in an emergency, reducing operating expenses, and giving Agency officials timely data with which to manage their administrative and operational activities.

Selective Service Automated Data Processing (ADP) facilities include the Data Management Center and Joint Computer Center, both located in Illinois, and the Computer Center located in Alexandria, Virginia. The Data Management Center provides the data entry, error correction, mail, logistics, and computer operations support required to process continuous registration. The Joint Computer Center, established jointly by Selective Service and the Military Entrance Processing Command (MEPCOM), handles the data processing requirements of continuous registration. Programmers and analysts responsible for developing new systems and maintaining existing systems are located at the Alexandria Computer Center, which also houses the computer used for administrative applications. A telecommunications system connects all of these sites with both the regional offices and the Washington, D.C. headquarters.

Maintaining the Registration Data Base. Almost 2,000,000 registration forms per year are edited and keypunched as they are received under the continuous registration program. Errors found during the registration process, such as an invalid date of birth or missing address, are corrected and acknowledgment letters are mailed to each new registrant. The acknowledgment letter emphasizes the statutory requirement for registrants to keep Selective Service informed of address changes. Changes to registrants' records are posted to the data base on a continuing basis. Acknowledgment letters are also sent to the registrants submitting changes in order to keep them informed of the latest information in their Selective Service records. Close to four million acknowledgment letters were mailed in fiscal year 1985. The volume of registration records will continue to grow until the data base reaches maximum size in 1986. Selective Service has maintained its responsive turnaround time on issuing acknowledgment letters to new registrants and now mails letters to over 95 percent of new registrants within 56 days after their registration at a post office. A rapid turnaround is important since many registrants require proof of registration quickly in order to qualify for jobs, federal loans and job training programs.

Registrant Record Verification Program. To insure that registrants in the prime vulnerability group can be reached by mail in time of mobilization, a registrant record verification program was established. Under this program, verification letters are mailed to registrants. The U. S. Postal Service is requested to forward these verification letters to new addresses reported to them. Registrants are asked to verify their information or send back any changes. The revised data received are posted to the registrant's record and a new acknowledgment letter is sent to the registrant.

Inductions, Claims, and Appeals Processing. The induction, claims, and appeals processing support the requirements of a full-scale military mobilization. If a decision were made to begin induction prior to a full-scale mobilization (i.e., a partial mobilization), certain changes to the current Registrant Information Management System (RIMS) procedures will be required. Also, the requirements for processing are expected to change after a full mobilization. Now that a computer system has been developed to support the most critical type mobilization situation, additional systems will be developed to support pre- and post-mobilization scenarios.

Alternative Service Program (ASP). The Alternative Service Program System (ASPS), developed in FY 85 provides for the placement of conscientious objectors into appropriate civilian work, in lieu of induction into military service. This will be accomplished by maintaining a data base of job openings which contribute to the national health, safety, or interest. Once a conscientious objector is placed in a job, the system will monitor changes in his status to assure that he is satisfactorily meeting the objectives of the ASPS.

Enhanced Mobilization Capability with Automated Administrative Systems. We have also used ADP technology in the development and application of administrative systems essential to both peacetime and mobilization activities. The Uncompensated Personnel Data System (UPDS) is an on-line data entry system for the automated record keeping of pertinent information on board members and their training status. During FY 1984, data on civilian review board members were entered in the system which now maintains comprehensive information on over 11,000 local, appeal and civilian review board members. The system provides a variety of standard management reports such as board membership and vacancy reports, training class schedules, rosters and class notices. It is also used to create a tape for Treasury Department processing to reimburse these uncompensated members for their travel expenses. The system enables users to generate ad hoc reports as required using a simple query routine.

The Reserve Forces Automated Personnel System (RFAPS) maintains data and produces reports on the National Guard and Reserve Officers assigned to Selective Service. This system provides on-line data entry, including edit and update, on-line data base inquiry and retrieval for report generation, and an ad hoc report generation capability. The system also produces mailing labels and form letters, such as letters to the individual officers' parent services requesting the issuance of annual training orders. In addition to personal information, such as military educational achievements, this system also includes data on the mobilization assignment of each officer. RFAPS has given us the capability to better manage our pool of Reserve Forces Officers during both current activities and any future contingencies.

Selective Service uses the automated PAY/PERS system of the Department of Interior for processing its payroll and personnel actions. During FY 1984, in compliance with OMB guidance to arrange for another agency to handle the processing of our administrative payments starting in FY 1985, we reviewed the systems of several agencies to seek a system compatible with our requirements. In view of the commonalities of our respective missions, we determined that the Financial Accounting and Reporting System (FARS) used by the Federal Emergency Management Agency will meet our short term and long range needs. Both PAY/PERS and FARS are capable of immediate expansion in the event of an emergency mobilization. Conversion was completed in FY 85 and we are a fully functional satellite facility for our accounting needs on the FARS operation.

In addition, an automated payment monitoring system is already in use to ensure compliance with the Prompt Payment Act. A new automated property accounting and management system was placed in operation in FY 1985 to provide a better automated tool to safeguard and manage the property distributed throughout the Agency and Reserve Forces units.

In FY 1985 we continued to enhance our mobilization capability through the use of automated techniques in the application of administrative systems. We developed an Administrative Mobilization Planning System (AMPS) to identify the personnel and office facilities needed for daily operation of the area offices. AMPS supports the reconstitution of area offices nationwide on M-day so that area office managers can fulfill their mobilization mission and provide administrative support to registrants who file claims. The system contains information on the location and jurisdiction of the area office; furniture, equipment and communications facilities available at the office; and how the area office manager can contact local, appeal and civilian review board members.

These administrative applications of ADP technology permit Selective Service to effectively cope with the surge of administrative transactions in the areas of personnel, payroll, accounting, property, etc. which would accompany the initial stages of an emergency mobilization and occur simultaneously with a resumption of inductions.

RESERVE FORCES

The System's 728 Reserve Forces Officers continue to represent a vital ingredient in mobilization readiness. Upon mobilization, Selective Service must immediately expand to a fully operational nationwide system. The complete infrastructure of Area Offices, Alternative Service Offices, MEPS Liaison Offices and State Headquarters must be physically established. By M+3 the System must be prepared to receive and process registrant claims for postponement, deferment, or exemption. The first registrants will report for induction on M+13, and 100,000 registrants will have been inducted by M+30. Our ability to accomplish this mission relies principally on our cadre of Selective Service National Guard and Reserve Officers, men and women who are trained in the specific skills required for the Agency to transition quickly from a standby mode to a fully operational one.

The task to be accomplished by this small cadre of officers is enormous. Upon mobilization operating sites will expand from 9 to 575 — all of which must be established by Reserve Forces Officers. Full time personnel will increase from less than 300 to more than 5200, most of whom will be hired and trained by the same Reserve Forces Officers. In addition, the officers must be prepared to proceed with the operational functions associated with registrant claims, appeals, and induction processing simultaneous with the establishment of the field structure. All possible steps to insure successful completion of these tasks are being taken in our mobilization planning. Detailed mobilization plans have been developed for all offices and an automated system has been designed to maintain them. Sites, currently in use as recruiting offices, have been selected as future Area Office locations and agreements have been signed with DoD to transfer the needed space, furniture, and equipment to Selective Service upon mobilization. In order to have an immediate staff on hand, 1500 recruiting personnel will be temporarily detailed to Selective Service.

Each of these offices has a Reserve Forces Officer assigned who is responsible for the establishment and operation of the site upon mobilization. Other Selective Service Reserve Forces Officers have mobilization assignments to establish State Headquarters or MEPS Liaison Offices, or to augment the staff at National Headquarters or one of the six Region Headquarters. Our Reserve Forces officers must be prepared to shoulder awesome mobilization responsibilities. Their training, carefully and specifically designed to prepare them for these assignments, is of utmost importance to the attainment of mobilization readiness.

The officers train in a 16 hour (2 day) Inactive Duty Training (IDT) session each month, and on 2 weeks of Annual Training (AT). During FY 1985 mobilization training during IDT time was devoted to addressing specific aspects of registrant processing, area office management and computer interface. FY 1985 AT updated the previous year's coverage of the Registrant Information and Management Systems (RIMS), and was expanded to include administrative support activities. Procedures for purchasing and contracting, personnel hiring and supervision, budgeting and financial management, and property acquisition and accountability were stressed. The goal achieved was a significant improvement in System-wide mobilization readiness.

The goal for FY 1986 and FY 1987 Reserve Forces training is an even more comprehensive mastery of the skills required to mobilize the Agency. This will include further training on RIMS and administrative support activities conducted through classroom type instruction during IDT. Sixteen new training guidance packets will be issued this year for use during classroom training. These instructional packets cover topics such as registrant classifications, personal appearances, property management, and emergency logistics procedures. In addition, there are 29 previously issued training packets available for use as refresher training. Because nearly all of the Reserve Forces Officers will participate in the nationwide area office mobilization exercise during FY 1987, Annual Training in FY 1986 will be conducted in a pre-mobilization readiness exercise format. The FY 1986 AT conferences are constructed to acquaint the officers with the conduct of a mobilization readiness exercise and to emphasize the interrelationships of the various mobilization assignments. Through a series of practical exercises, Agency field personnel will convert previous training into practical application.

In addition to the mobilization training detailed above, the Reserve Forces Officers are a valuable asset to ongoing mission activities. Because they are located throughout the nation and specially trained in Selective Service functions, their skills are extensively utilized in the activities of the registration improvement program and to conduct the training of the volunteer board members and the recruiter augmentees. The officers are the primary resource for our local public awareness activities such as contact with TV and radio stations and public speaking engagements associated with the Registration Improvement Program. They are the major force in the recruitment and training of over 11,000 Local, Appeal and Civilian Review Board members. In addition, the Reserve Forces Officers provide training to the 1,500 recruiting personnel who will be temporarily assigned to Selective Service upon mobilization. Application of the officers' training time in this manner is both practicable and advantageous. It provides supplemental manpower resources to our small civilian staff and at the same time exercises and improves their skills.

SELECTIVE SERVICE SYSTEM

Federal Funds

General and special funds:

SALARIES AND EXPENSES

For necessary expenses of the Selective Service System, including expenses of attendance at meetings and of training for uniformed personnel assigned to the Selective Service System, as authorized by law (5 U.S.C. 4101–4118) for civilian employees; and not to exceed [$1,000] *$2,500* for official reception and representation expenses; [$27,780,000] *$27,474,420*:*Provided*, That during the current fiscal year, the President may exempt this appropriation from the provisions of 31 U.S.C. 1341, whenever he deems such action to be necessary in the interest of national defense: *Provided further*, That none of the funds appropriated by this Act may be expended for or in connection with the induction of any person into the Armed Forces of the United States.

[Sec. 416. Notwithstanding any other provision of this Act, amounts otherwise provided by this Act for the following accounts and activities are reduced by the following amounts:

SELECTIVE SERVICE SYSTEM

"Salaries and expenses", $305,580;]

(Department of Housing and Urban Development-Independent Agencies Appropriations Act, 1986.)

STANDARD FORM 300
[illegible]

SELECTIVE SERVICE SYSTEM
SALARIES AND EXPENSES

Program and Financing (in thousands of dollars)

Identification code 90-0400-0-1-054	19 85 actual	19 86 estimate	19 87 estimate
Program by activities:			
10.00 Total obligations..............	27,399	27,474	27,474
Financing:			
25.00 Unobligated balance lapsing.....	381	---	---
39.00 Budget authority (appropriation).................	27,780	27,474	27,474
Budget Authority:			
40.00 Appropriation..................	27,780	27,474	27,474
Relation of obligations to outlays:			
71.00 Obligations incurred, net.......	27,399	27,474	27,474
72.40 Obligated balance, start of year...........................	9,149	9,714	9,265
74.40 Obligated balance, end of year...........................	9,714	9,265	9,265
77.00 Adjustments in expired accounts........................	-315	---	---
90.00 Outlays........................	26,519	27,923	27,474
Pursuant to Public Law 99-177:			
40.00 Budget Authority (Appropriation)	27,780	26,128	27,474
90.00 Outlays........................	26,519	26,937	27,189
(Memo ent: [illegible])	(Memo ent: [illegible])	(Memo ent: [illegible])	(Memo ent: [illegible])

STANDARD FORM 300
July 1964, Bureau of the Budget
Circular No. A-11, Revised.
300-101

SELECTIVE SERVICE SYSTEM
SALARIES AND EXPENSES

OBJECT CLASSIFICATION (in thousands of dollars)

Identification code 90-0400-0-1-054	19 85 actual	19 86 estimate	19 87 estimate
Personnel compensation:			
11.1 Full-time permanent positions....	6,426	6,395	6,492
11.3 Positions other than permanent...	248	505	405
11.5 Other personnel compensation.....	429	330	330
11.8 Special personal services payments..........................	6,595	6,744	6,773
11.9 Total personnel compensation.....	13,698	13,974	14,000
12.1 Personnel benefits: Civilian....	950	1,125	1,136
13.0 Benefits for Former Personnel....	40	40	40
21.0 Travel and transportation of persons..........................	775	880	863
22.0 Transportation of things.........	46	12	13
23.1 Standard level user charges......	814	849	885
23.2 Communications, utilities, and other rent.......................	3,042	3,133	3,137
24.0 Printing and reproduction........	1,068	796	792
25.0 Other services...................	6,230	6,185	6,248
26.0 Supplies and materials	361	328	294
31.0 Equipment........................	371	152	66
42.0 Claims and Indemnities...........	4	---	---
99.9 Total obligations................	27,399	27,474	27,474
Pursuant to Public Law 99-177 99.9 Total obligations	27,399	26,128	27,474
(Memo cost: [illegible])	18 (Memo cost: 0)	(Memo cost: 0)	(Memo cost: [illegible])

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STANDARD FORM 300
July 1964, Bureau of the Budget
Circular No. A-11, Revised.
300-101

SELECTIVE SERVICE SYSTEM
SALARIES AND EXPENSES

PERSONNEL SUMMARY

Identification code 90-0400-0-1-054	19 85 actual	19 86 estimate	19 87 estimate
Total number of full-time permanent positions	276	276	276
Total compensable workyears:			
Full-time equivalent employment	274	277	277
Full-time equivalent of overtime and holiday hours	10	10	10
Average ES salary	69,600	69,266	69,266
Average GS grade	7.94	7.83	7.83
Average GS salary	22,970	22,820	23,178
Average salary of ungraded positions	19,513	19,200	19,200

(Memo cost: [illegible])	(Memo cost: [illegible])	(Memo cost: [illegible])	(Memo cost: [illegible])

STANDARD FORM 306
July 1968, Bureau of the Budget
Circular No. A-11, Revised.
306-100

SELECTIVE SERVICE SYSTEM

SALARIES AND EXPENSES

DETAIL OF PERMANENT POSITIONS

90-0400-0-1-054	19 85 actual	19 86 estimate	19 87 estimate
Executive level IV	1	1	1
ES-6	0	1	1
ES-5	1	0	0
ES-4	1	0	0
ES-3	0	1	1
Subtotal	3	3	3
GS/GM-15	13	12	12
GS/GM-14	19	18	18
GS/GM-13	19	19	19
GS-12	18	16	16
GS-11	22	22	22
GS-9	25	28	28
GS-8	10	4	4
GS-7	22	25	25
GS-6	24	24	24
GS-5	34	35	35
GS-4	33	38	38
GS-3	20	20	20
GS-2	13	10	10
Subtotal	272	271	271
Ungraded	1	2	2
Total permanent positions	276	276	276
Unfilled positions, end of year	-16	-2	-2
Total permanent employment, end of year	260	274	274

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SELECTIVE SERVICE SYSTEM INFORMATION TECHNOLOGY SYSTEMS

Selective Service automated data processing facilities include the Data Management Center and Joint Computer Center, both located in Illinois, and the Alexandria Computer Center located in Virginia. The Data Management Center provides the data entry, error correction, mail and logistics, and computer operations support required to process continuous registration. The Joint Computer Center, established jointly by Selective Service and the Military Enlistment Processing Command, handles the data processing requirements of continuous registration, and supports the development of computer systems such as inductions, claims and appeals, and compliance. Programmers and analysts responsible for developing new systems and maintaining existing systems are located at the Alexandria Computer Center. This center also houses the computer used for Agency administrative applications.

A telecommunications system connects these offices and our National and Region Headquarters. Telecommunication requirements increased in FY 1985 because of increased access to the Registrant data base and increases at the six regional headquarters because of expanding workload in support of the mobilization readiness program.

Selective Service System's information technology systems will continue to function at approximately the same level in the coming years. No major funding increases are anticipated at this time.

SELECTIVE SERVICE SYSTEM

Major Information Technology Acquisition Plans
1986 - 1991
(in thousands of dollars)

Item: Purchase of Hardware

Obligations:

1986	1987	1988	1989	1990	1991
50	28	29	30	31	32

Description: Routine replacement cost of terminals, keyboards, modems, etc. No new major acquisition of hardware anticipated at this time.

Item: Lease of Equipment

Obligations:

1986	1987	1988	1989	1990	1991
44	45	47	49	50	51

Description: Routine on-going costs of renting terminals and printers.

Item: Commercial Services

Obligations:

1986	1987	1988	1989	1990	1991
805	839	872	902	928	949

Description: Routine on-going expenses related to leased telecommunications, maintenance of ADP equipment and data entry services.

Note: Increases in obligations reflect OMB's economic assumptions through fiscal year 1991.

NOTE: The FY1986 figures contained in this report do not reflect the impact of the Gramm-Rudman-Hollings Bill, (P.L. 99-177).

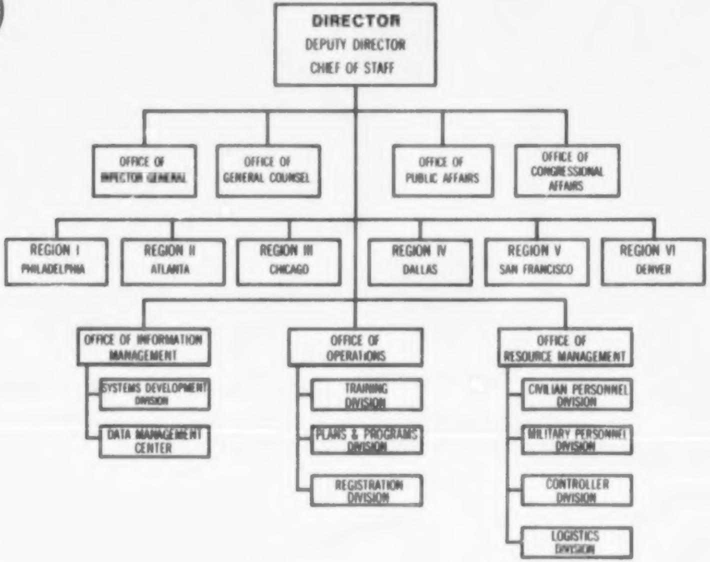
REPORT ON OBLIGATIONS FOR INFORMATION TECHNOLOGY SYSTEMS

SELECTIVE SERVICE SYSTEM

OBLIGATIONS FOR INFORMATION TECHNOLOGY SYSTEMS

	1985	1986	1987
1. Capital Investment ($000)			
A. Purchase of hardware	231	28	29
B. Purchase of software or other equipment	25	20	35
C. Site	22	17	18
Subtotal	278	65	82
2. Personnel ($000)			
A. Compensation, benefits and travel	2,988	3,050	3,117
B. Workyears	(127)	(128)	(128)
Subtotal	2,988	3,050	3,117
3. Equipment rental, space and other operating costs ($000)			
A. Lease of equipment	39	44	45
B. Space	372	483	532
C. Supplies and other	314	420	437
Subtotal	725	947	1,014
4. Commercial services ($000)			
A. ADPE time	103	113	118
B. Leased telecommunications services	302	335	349
C. Operations and maintenance	403	357	372
D. Systems analysis and programming	-0-	-0-	-0-
E. System design and engineering	-0-	-0-	-0-
F. Studies and other	-0-	-0-	-0-
Subtotal	808	805	839
5. Interagency services ($000)			
A. Payments	721	966	1,007
B. Offsetting collections	-0-	-0-	-0-
Subtotal	721	966	1,007
TOTALS			
Total Obligations	5,520	5,833	6,059
Workyears	(127)	(128)	(128)

ORGANIZATION CHART


DIRECTOR
DEPUTY DIRECTOR
CHIEF OF STAFF
OFFICE OF INSPECTOR GENERAL
OFFICE OF GENERAL COUNSEL
OFFICE OF PUBLIC AFFAIRS
OFFICE OF CONGRESSIONAL AFFAIRS
REGION I PHILADELPHIA
REGION II ATLANTA
REGION III CHICAGO
REGION IV DALLAS
REGION V SAN FRANCISCO
REGION VI DENVER
OFFICE OF INFORMATION MANAGEMENT
SYSTEMS DEVELOPMENT DIVISION
DATA MANAGEMENT CENTER
OFFICE OF OPERATIONS
TRAINING DIVISION
PLANS & PROGRAMS DIVISION
REGISTRATION DIVISION
OFFICE OF RESOURCE MANAGEMENT
CIVILIAN PERSONNEL DIVISION
MILITARY PERSONNEL DIVISION
CONTROLLER DIVISION
LOGISTICS DIVISION

January 1986

DISPOSITION OF SELECTIVE SERVICE PROSECUTIONS

DEFENDANT	U.S. DISTRICT CT.	INDICTMENT	SENTENCE
1. Benjamin Sasway	S.D. California	6/30/82	2 1/2 yrs. in prison (paroled after 4 1/2 months) (Affirmed on Appeal)
2. Enter Eller	W.D. Virginia	7/1/82	2 yrs. full time community service (commuted after 18 months)
3. David Wayte	C.D. California	7/22/82	6 mos. house arrest
4. Mark Schmucker	N.D. Ohio	7/22/82	2 yrs. full time community service, 3 yrs. probation and $4000 fine (On Appeal)
5. Russell Ford	D. Connecticut	7/30/82	30 days in jail (served awaiting trial)
6. Gary Eklund	S.D. Iowa	9/1/82	2 yrs. in prison (paroled after 4 1/2 months) (Affirmed on Appeal)
7. Michael McMillan	W.D. Wisconsin	9/1/82	1 yr. pre-trial diversion (Registered before trial)
8. Gillam Kerley	W.D. Wisconsin	9/9/82	dismissed on pre-trial motion (On Appeal)
9. Kendall Warkentine	D. Kansas	9/22/82	2 yrs. probation; registered per probation condition
10. Paul Jacob	E.D. Arkansas	9/23/82	6 mos. in prison (paroled after 5 mos.), 4 1/2 yrs. parole including 1 day a week full time community service (On Appeal)

DISPOSITION OF SELECTIVE SERVICE PROSECUTIONS

DEFENDANT	U.S. DISTRICT CT.	INDICTMENT	SENTENCE
11. Russell Martin	N.D. Iowa	10/5/82	3 yrs. probation and $10,000 fine (Affirmed on Appeal); registered per probation condition
12. Edward Hasbrouck	D. Massachusetts	10/6/82	2 yrs. probation and 1000 hrs of community service; probation revoked, sentenced to 6 mos. in prison (Released after 4-1/2 mos.)
13. Daniel Rutt	E.D. Michigan	1/20/83	convicted; awaiting sentence
14. Samuel Matthews	S.D. Ohio	3/10/83	1 yr. and 1 day in prison (commuted after 3 mos.)
15. Stephen Schlossberg	D. Minnesota	10/3/83	1 yr. pre-trial diversion (Registered before trial)
16. Andrew Mager	N.D. New York	8/22/84	6 mos. in prison and 2 1/2 yrs. parole
17. Phetsamay Mockhamphio	W.D. Louisiana	12/13/84	1 yr. pre-trial diversion (Registered before trial)
18. Charles Epp	D. Kansas	9/22/85	Registered during trial-charges dismissed
19. Jon Harshbarger	N.D. Indiana	Waived 9/30/85	2 yrs. full time community service and $1500 fine

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WEDNESDAY, FEBRUARY 26, 1986.

OFFICE OF CONSUMER AFFAIRS

WITNESSES

VIRGINIA H. KNAUER, SPECIAL ADVISER TO THE PRESIDENT FOR CONSUMER AFFAIRS AND DIRECTOR, UNITED STATES OFFICE OF CONSUMER AFFAIRS

ROBERT F. STEEVES, DEPUTY DIRECTOR, UNITED STATES OFFICE OF CONSUMER AFFAIRS

FRANK R. MARVIN, DIRECTOR, MANAGEMENT STAFF, UNITED STATES OFFICE OF CONSUMER AFFAIRS

JOHN T. HOPKINS, DIRECTOR, DIVISION OF OS BUDGET SERVICES, DEPARTMENT OF HEALTH AND HUMAN SERVICES

INTRODUCTORY REMARKS

Mrs. BOGGS. We wish, of course, to welcome you, Mrs. Knauer, and the other witnesses. All of you have appeared before the Committee previously, of course. Most agencies come before this Committee complaining about how to absorb the 4.3 percent Gramm-Rudman reduction in 1986, but Gramm-Rudman appears to be the least of OCA's problems.

The 1987 budget request for the Office of Consumer Affairs represents the deepest cut of any agency under this subcommittee's jurisdiction. Dollars are down by 80 percent from $1,903,000 to $400,000, and FTE dropped by 85 percent from 33 to five.

SUMMARY OF OPENING STATEMENT

So, Mrs. Knauer, we would be very pleased to hear from you and to have your statement as you wish to proceed.

Mrs. KNAUER. Thank you, Madam Chairman.

I have a prepared statement. In the interest of time, I will summarize it.

Mrs. BOGGS. Proceed as you wish. We will make the whole statement a part of the record.

Mrs. KNAUER. Thank you. I welcome the opportunity to give an accounting of our use of funds appropriated by the Congress and to request resources for the coming year.

The record is here, Madam Chairman, in the 18 pages of formal justification—12 pages of narrative supported by the official tables. But sometimes all these details obscure the basic question. For the Office of Consumer Affairs the question is: Have we been effective? Are we worth the investment? We believe the answer is an emphatic yes. Let me cite just a few examples.

ACCOMPLISHMENTS

Consumer problems can be avoided through education. But data suggests many persons simply don't have basic knowledge of how to deal effectively in the marketplace. For instance, one-fourth of teenagers queried in a major national survey believed or at least were unsure if government guarantees a profit for business.

Last year we reached 50 million people during National Consumers Week through programs stimulated by OCA but largely developed and undertaken at the local level. Madam Chairman, I have with me copies of a final report which lists hundreds of examples of effective programs undertaken during the week. The cost to OCA for National Consumers Week was about two person years and related support costs.

If a consumer has a problem with a purchase, there is no better reference tool on what to do and where to go to solve the problem than the *Consumer's Resource Handbook* prepared by OCA with the help of 20 Federal agencies. One-and-a-quarter million copies of the latest edition which has just come out are now being distributed.

Almost a quarter million copies of these have been requested for use by Congressional offices which we understand rely heavily on them primarily to assist constituents. No single government agency or private group has sufficiently broad responsibilities to undertake the development of this *Handbook*. The private sector simply has not been able to fill this information gap. Perhaps one of the most significant points, Madam Chairman, is that every time the *Handbook* prevents a misdirected complaint to the Federal Government, the taxpayer saves $8 to $10.

PLANS FOR 1987

I just want to say, Madam Chairman, I am very proud of our report, but now it is time to move ahead to a more policy-oriented mission. As indicated in our comprehensive budget justification, action will be taken in fiscal year 1987 to reorganize and incorporate the present United States Office of Consumer Affairs into an enhanced Office of the Special Adviser to the President for Consumer Affairs. This change will provide a highly visible and cost-effective consumer policy guidance office in the Executive Branch. We plan to do this by:

Relying for operational activities on the staffs of 41 agencies which constitute the Consumer Affairs Council as they carry out their statutory responsibilities;

Serving as a catalyst and adviser on partnerships and other cooperative efforts among business, government and consumers; and by

Encouraging both Federal agencies and non-Federal groups to assume responsibility for more of the projects and campaigns previously undertaken by OCA.

Let me mention a few of the more significant changes proposed for 1987.

Rather than organizing and conducting conferences on major issues facing consumers, the OCA staff will participate in such forums, thus saving staff time involved in planning and development and associated costs for printing, postage and related facilities support.

To obtain the views of consumer groups on emerging issues, priority will be placed on attendance of OCA principals at a wide range of domestic and international meetings.

A priority will continue to be to organize issue discussions on consumer problems of women, elderly, minority, low income and disabled consumers.

Business will be encouraged to resolve marketplace complaints through non-judicial third-party dispute resolution mechanisms.

OCA will continue to work closely with the American Bar Association, the Council of Better Business Bureaus, the American Arbitration Association and other similar groups as they assess the efficacy of alternate means to resolve consumer disputes and the development of standards for third-party consumer dispute mechanisms.

We will provide national leadership to improve consumer education by participating in meetings sponsored by business, education institutions and voluntary groups, and we will serve as a clearinghouse for innovative and effective consumer education techniques. We will also encourage business and private organizations to continue to develop teaching materials and undertake needed research.

High priority will be placed on the interest of consumers in trade and other international issues. As in the past, I will head the U.S. delegation to the OECD Committee on Consumer Policy, and we will participate in international policy and trade-related meetings which focus on the availability, price and quality of goods for consumers.

Madam Chairman, in summary, our proposed fiscal year 1987 budget indicates that OCA will join with other Federal agencies in carrying out mandated responsibilities to the consumer consistent with the efforts of the Administration and Congress to balance the budget. I believe each Federal agency must find ways to do its job within the resources available. OCA will do its part, too. Our formal budget justification provides details.

Madam Chairman, we will be pleased to respond to any questions you may have.

[The statement of Mrs. Knauer follows:]

OPENING STATEMENT

VIRGINIA H. KNAUER
SPECIAL ADVISER TO THE PRESIDENT
FOR CONSUMER AFFAIRS

Madam Chairman and Members of the Committee, as always, I welcome the opportunity to give an accounting of our use of funds appropriated by the Congress and to request resources for the coming year. The record is here, Madam Chairman, in the 18 pages of formal justification -- 12 pages of narrative supported by the official tables. But sometimes all these details obscure the basic question. For the Office of Consumer Affairs the question is: Have we been effective? Are we worth the investment? We believe the answer is an emphatic yes. There are many examples of accomplishments to support this conclusion. Let me cite just one example for each of the major program objectives presented in more depth in our printed justification.

Last year our citizens lost milions of dollars as a result of a rapidly growing scheme based on obtaining a person's credit card number through fabricated telephone promotions. The problem: it takes a month or more before the consumer and the lending insitution can confirm credit card misuse. The solution: credit card companies and trade associations are now working on an OCA proposal for a national toll-free telephone number for consumers to report suspicious calls to an industry information clearinghouse for subsequent referral to law enforcement agencies. The cost to government -- just a few weeks of staff effort.

This and many other consumer problems can be avoided through education. But, data suggests many persons simply don't have basic knowledge of how to deal effectively in the marketplace. For instance, one fourth of teenagers queried in a major national survey believed or were unsure if government guarantees a profit for business. Last year we reached 50 million persons during National Consumers Week through programs stimulated by OCA but largely developed and undertaken at the local level. Madam Chairman, I have with me copies of a Final Report we prepared which lists hundreds of examples of effective programs undertaken during the Week. The cost to OCA for National Consumers Week 1985 was about two person years and related support costs.

If a consumer has a problem with a purchase, there is no better reference tool on what to do and where to go to solve the problem than the Consumer's Resource Handbook -- prepared by OCA with the help of 20 Federal agencies. One and a quarter million copies of the latest edition are now being distributed. Almost a quarter million copies of these have been requested for use by Congressional offices which, we understand rely heavily on them, primarily to assist constituents. No single government agency or private group has sufficiently broad responsibilities to undertake the development of this Handbook. The private sector simply has not been able to fill this information gap. Perhaps one of the most significant points, Madam Chairman, is that every time the Handbook prevents a misdirected complaint to the Federal government, the taxpayer saves $8 to $10.

Broad cross-cutting issues are also a major focus of the Consumer Affairs Council guided by the OCA staff. The Council assisted OCA in sponsoring an update of the landmark mid-70's study of Complaint Handling in America, sponsored then by OCA. Comprehensive reports on the state of the art of consumer complaint handling by government, business and voluntary groups are now being delivered by the contractor. This study is the only one of its kind ever undertaken. The initial study findings have been used by government to set standards for handling complaints -- and were used extensively in business as a competitive tool. The evidence is there, Madam Chairman -- consumer complaint satisfaction means success for business. Again, no one group -- government or business -- has either the broad-based interest or incentive to undertake this OCA sponsored effort.

As consumers, each of us is directly affected by changes in international trade, and OCA brings to that policy process a balanced consumer perspective. For instance, last year my Deputy was the chief U.S. negotiator in the development of Guidelines for Consumer Protection, subsequently approved by the United Nations. I coordinated development of U.S. policy on the work of the Committee on Consumer Policy of the 23 member nations Organization for Economic Cooperation and Development. No other Federal agency has provided this unique and essential representation of the American consumer's interest.

Madam Chairman, we in OCA also can make the difference in the legislative/regulatory policy process. We fill the gap when a consumer perspective might not otherwise have been effectively presented by constituent groups or by agencies having statutory responsibility. Let me be specific -- OCA made the difference in a proposed rule change dealing with retail food store advertising and marketing practices. The OCA proposal was a rallying point for a compromise which seems acceptable to FTC, consumers and the industry -- thus, on products advertised for sale in food stores, consumers would get rainchecks or substitutes of comparable value when sale items are out of stock. Food retailers would be freed from documentation requirements in order to have a sale, and the FTC's enforcement workload would be minimized. A formal rule is expected to be issued soon.

I am very proud of our record Madam Chairman, but now it is time to move ahead to a more policy oriented mission. As indicated in our comprehensive budget justification, action will be taken in FY 1987 to reorganize and incorporate the present United States Office of Consumer Affairs into an enhanced Office of the Special Adviser to the President for Consumer Affairs. This change will provide a highly visible and cost-effective consumer policy guidance office in the Executive Branch. We plan to do this by:

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- To obtain the views of consumer groups on emerging issues, priority will be placed on attendance of OCA principals at a wide range of domestic and international meetings.

- A priority will continue to be to organize issue discussions on consumer problems of women, elderly, minority, low income and disabled consumers.

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Madam Chairman, we will be pleased to respond to any questions you may have.

REDUCTIONS PRIOR TO 1987

Mrs. **Boggs**. Mrs. Knauer, in both your statement and the budget justification, reference is made to OCA doing its part to reduce the deficit. In fact, hasn't OCA been asked to do much more than its part?

Mrs. **Knauer**. Well, when I came to OCA in this administration five years ago, there were 60 persons on the payroll. We tightened our belt and today there are half that number. I believe in fiscal year 1982 the budget cut was 40 percent.

Mrs. **Boggs**. I know it must be difficult for you to defend this request today because you are such an effective consumer advocate and spokesperson. Why are the requested cuts so large?

Mrs. **Knauer**. Well, it is part of the effort to reduce the budget deficit. Most agencies have taken some cuts.

OMB REQUEST

Mrs. **Boggs**. What was OCA's request to OMB?

Mrs. **Knauer**. Our budget request to OMB for 1987 totalled $2,089,000 for the equivalent of 33 full time employees. That was an increase of $101,000 over 1986.

ADMINISTRATION RESOURCE DECISION—IMPLICATION

Mrs. **Boggs**. Can OCA really play an effective role for consumers with a staff of only five people and $400,000?

Mrs. **Knauer**. Well, I am going to certainly try to do my part and we will see how it turns out, Madam Chairman.

Mrs. **Boggs**. Over the years, as you know, the subcommittee has supported OCA, but I must admit that we have asked some tough questions. The OCA justification for FY 1987 uses words such as "coordinates," "fosters," and "promotes," which are very difficult to measure. Does the administration really believe that the role OCA has been playing is not important?

Mrs. **Knauer**. Well, I think the administration has determined that now is the time to move from an operating phase to one that is more policy directed. But, we are very proud of what we have done in the past. We think that the ten million dollars that has been appropriated to OCA by Congress in the past five years has been used effectively. I can think of a lot of good examples, Madam Chairman.

For instance, we in OCA were the first to work for improvements in the handling of consumer complaints. In 1974 we initiated the first comprehensive nationwide study of the handling of consumer complaints by government, business and consumer groups.

It was completed in 1979. This was the first time that Federal agency complaint handling systems had been evaluated. Based on data from that study, standards were drawn and incorporated in Executive Order 12160, for complaint handling activities by all Federal agencies.

Benefits of the study carried over into the private sector, too. Firms realized that complaint handling is a competitive tool. The better they handled consumer complaints, the more loyal their customers were. It was a good bottom line decision.

We estimate that the adoption of the study recommendations probably saved about $25 million for Federal agencies in FY 1985 alone. The study only cost half a million dollars.

Of course, we have talked at length about our *Consumer's Resource Handbook*. About four million copies of the three editions have been distributed through the Consumer Information Center. Also, we have distributed the *Handbook* widely to the consumer media and the general press, and they use it to handle complaints that reach them directly. Washington, D.C.'s TV Channel 7 has 14 experts who each use the *Handbook* 20 times a day just to advise the consumers where to go for help. We think that this success story is a very good use of money.

I have many other examples including, of course, the Consumer Council's Constituent Resource Exhibition that we sponsored in 1983 and 1985 to help Congressional staffers aid constituents.

CONSUMER'S RESOURCE HANDBOOK—1987 PLANS

Mrs. **Boggs**. There are two very tangible and very visible things for which OCA has been responsible. We would like to understand the specific impacts of the proposed reduction on each of these activities. The first is the *Consumer's Resource Handbook*. Exactly what will happen to the *Handbook* in 1987?

Mrs. **Knauer**. Well, I am afraid OCA will not be able to publish another edition because it takes a lot of staff time. If it is reprinted, we would seek help from the agencies that make up the Consumer Affairs Council.

But past editions have required the effort of our whole staff. With a drastically reduced staff, we would have to depend upon outside help or perhaps publication by a private source. However, so far no one has offered to come up with that sort of help, despite our efforts to find non-government sponsors.

Mrs. **Boggs**. So you are saying that the FTEs in 1985 and 1986 that were devoted to the *Handbook* represented the whole complement of OCA?

Mrs. **Knauer**. Yes. Most of us had some role in drafting, editorializing or checking. We have some 2,000 sources of help for consumers and every entry had to be checked to make sure the name, the address and the phone number were correct. Of course, we added complete new sections such as help for the handicapped.

Everything had to be checked very carefully.

Mr. **Steeves**. Madam Chairman, may I just make an addition to Mrs. Knauer's explanation?

Mrs. **Boggs**. Certainly.

Mr. **Steeves**. The timeliness of the information in the *Handbook* is the key. The entire staff is involved. It is intensely active for a very brief period of time so we can get it out quickly while the information is current. With a staff of five it might be possible to put the *Handbook* together over the course of a year's time, but with 30 people you can get it out in a month. The concentrated effort that is needed just would not be available with a staff of five persons even if everybody worked full time on this single project.

Mrs. **Boggs**. Has any group or agency been identified that could help in producing the *Consumer's Resource Handbook?*

Mrs. KNAUER. No.

Mrs. BOGGS. In 1985 over one million copies of the *Handbook* were printed and distributed. Did OCA funds cover any of the printing costs or did all of the funds come from other agencies' printing budgets?

Mrs. KNAUER. We have a list of the 20 agencies that contributed to this and, of course, the other editions, but we paid for the distribution cost. That is quite a large part of our budget. Distribution by OCA is through the Consumer Information Center.

CONSUMER INFORMATION CENTER

Mrs. BOGGS. About ten percent of the publications CIC distributes come from OCA. Will these just disappear in 1987?

Mrs. KNAUER. I would hope not. We do depend upon the private sector to pick up some printing and, in one case, they covered distribution through CIC of a pamphlet that we initiated.

Mr. MARVIN. To add to what you are saying, Mrs. Knauer, the budget for 1987 provides no funds for distribution of publications through CIC. In FY 1986 OCA will be distributing about three-quarters of a million through the Center.

Mrs. KNAUER. In 1986.

NATIONAL CONSUMERS WEEK

Mrs. BOGGS. Another very important OCA project you have alluded to is the National Consumers Week. The justification indicates that about two FTEs have been devoted to Consumers Week in the past. Would you explain just what sort of work is done by OCA to make National Consumers Week a success?

Mrs. KNAUER. It starts out with a Presidential proclamation. We have a staff person who coordinates the work of support persons and we send out thousands of announcements. For example, *Readers Digest* provided us with 200,000 new brochures at no cost. Sears Roebuck produced 80,000 posters for us free of charge. The 7-Up Corporation produced a booklet, "How To Run A Consumers Week."

As part of our outreach efforts, I personally have written to over 100 companies. I also contacted over 100 governors and mayors who have proclaimed National Consumers Week.

This is part of raising the public consciousness. This year our theme is "Consumers Rate Quality." It has two meanings, one is that consumers deserve quality, and the second is that they buy based on quality.

Now, our objective is to stimulate the private sector and to maximize OCA effectiveness.

Mrs. KNAUER. Recently we made an analysis of countless activities at the state and local level stimulated by OCA. They are in this *Final Report—National Consumers Week 1985.*

These are individual activities to raise citizen consciousness and sharpen personal skills in the marketplace through consumer and economic education. We have had great support from local women's groups, colleges, and other schools and, of course, the business community. Based on the reports received, we believe that 50 million people were reached during the 1985 program.

As I said before, the cost to OCA was about two staff years and about $25,000 in associated costs.

Mrs. **Boggs**. Each year, as you say, hundreds of businesses, consumer groups and Government agencies at all levels take part in National Consumers Week, but I suspect that what makes it a success is not just a central coordinator, but someone like OCA who accepts the responsibility for making it succeed. Who will play that role next year?

Mrs. **Knauer**. We would hope that we could act as coordinator, but we will not have the ability to answer the thousands of requests for information and guidance to write a final report, or to evaluate the effectiveness of individual activities. That could not be done.

We will try to stimulate the private sector to carry on, and do what was done before, but the distribution of public information would be very difficult.

Mrs. **Boggs**. Under the 1987 request, how many of the total five FTEs will go toward National Consumers Week?

Mr. **Marvin**. It will be a fraction of a person—perhaps less than one-quarter of a person year.

REGULATORY REVIEW ACTIVITIES

Mrs. **Boggs**. Another role of OCA is reviewing and commenting on other agencies' rules and regulations.

Mrs. **Knauer**. I will let my deputy, Mr. Steeves, who is a lawyer, answer that.

Mrs. **Boggs**. How much will those efforts be reduced under the 1987 budget?

Mr. **Steeves**. I think that our role in 1987 will be about half of the revised FY 1986 level. We do intend to keep a fairly high profile in that specific area given our total budget request of five FTE. We are planning to spend about eight/tenths of an FTE in that policy guidance and commentary role.

Mrs. **Boggs**. Page 4 of your statement mentions the pivotal role OCA played in the FTC rule on supermarket advertising. Are you satisfied with the final compromise on that regulation?

Mr. **Steeves**. The final compromise, Madam Chairman, was our suggestion.

We worked with the FTC staff and with some consumer and supermarket interests who thought the rule was valuable in some respects. We recognized there were tremendous costs involved in designing a fail-safe system to assure a retailer could not be accused of improperly offering an item for sale when, due to circumstances beyond its control, there was not an opportunity to fill all the requests.

The position we articulated and submitted to FTC formed the basis for the compromise that FTC has now proposed for comment and perhaps final adoption. So far as we can determine, that position is acceptable both to the FTC and to the industry and to consumer groups.

Mrs. **Boggs**. If you had to do it all over again, would you take the same position on that regulation?

Mrs. **KNAUER**. On that particular regulation, I am sure we would. But, because of a reduced staff, we would have to set priorities in choosing those proposed interagency regulations that have the greatest impact both dollar-wise and on large numbers of consumers.

ALTERNATIVE BUDGET LEVEL—MERITS

Mrs. **BOGGS**. Bill, do you have any questions?

Mr. **GREEN**. I guess you get to a very fundamental question; that is, when the agency shrinks so much, is the game worth the candle anymore.

Mrs. **KNAUER**. I think it definitely is. Of course, I take a prejudiced view, but I feel that you can still go on by stimulating others. If we suddenly cease to exist, there could be a lot of backsliding on the part of business because we are constantly challenging them to do something new and innovative for consumers. They have responded. For instance, you know auto manufacturers adopted two-and-a-half mile bumpers. Most of the industry went along with the change, but we were concerned because the weaker bumpers resulted in a lot of property damage to automobiles.

We discovered that one of the major manufacturers, Ford, had retained the five mile bumper. I went to the president of Ford pointing out I thought this was something consumers should know when they made decisions in the marketplace. He was delighted with the idea and launched a big T.V. advertising program to point out his firm's superior bumper. Of course, the bottom line is that all the manufacturers have announced they are going back to the five mile bumper.

We have had the role of catalyst. Certainly we can fill a broader role with our present staff, but I still think there is a viable role even with a reduced staff.

CONSUMER'S RESOURCE HANDBOOK-STAFFING REQUIREMENT

Mr. **GREEN**. Let me ask this. What is the minimum staff that you would need in order to keep up the *Handbook?*

Mrs. **KNAUER**. Well, I would have to consider that in terms of what we are doing now—putting on conferences, such as bringing people together who have never been brought together before, for example, in the deregulation of financial services. We found there was a great deal of animosity among low-income consumers and many others. They didn't understand it and bankers have not had to sell their product, or be competitive, or talk to these groups. So we had two national conferences to bring them together. They were so delighted that they have developed a more permanent industry support group. All of them stayed together. Representatives of business, consumers, the aging and other groups stayed together to continue this dialogue that we had started.

Mr. **STEEVES**. May I add something to that? We haven't really priced it out, but we would be thinking about minimum staff size to revise the *Handbook*.

Mr. **GREEN**. Dollars and staff.

Mr. **MARVIN**. For the *Consumer's Resource Handbook?*

Mr. **Steeves**. At what level of staffing would we continue to put it out?

Mr. **Green**. My question is: How many people would it take to revise the *Handbook* in addition to the five persons and $400,000 you're requesting in 1987?

Mr. **Steeves**. I think it would take 20 people, but not for a whole year. In other words, in order to get the timeliness of the information together and get the book out and do the coordination that is necessary, you have to have concentrated effort of about 20 staffers. That would be sort of the minimal level that one could work with. We did a survey of the first *Consumer's Resource Handbook* to decide whether just to reprint it or to revise it or to go through a big staff effort. We surveyed ten percent of the names in the booklet and found about 60 or 70 percent of the entries had changed; if we had just reprinted the book, it wouldn't have been of any value to anybody. So I would guess that in order to put out a new edition of the book in 1987, we would have to have at least the availability of 20 FTE for a month or two.

Mr. **Green**. Given the seasonality of that work load, would it make sense to contract it out?

Mr. **Marvin**. Actually, the benefit from the OCA staff doing it is that we integrate it with the work we are doing on a daily basis. We know the professionals at the state and local level. We know the corporate officers. We have the tools to work with. To bring in a contractor would not be cost effective.

Mr. **Green**. You see what I am trying to deal with is the fact that you have a job that needs 20 people for two months and at least that job does not require them for the remaining ten months. Is there some way to deal with that?

Mr. **Steeves**. The present way we do that is that we concentrate resources. In the summer months, we concentrate resources on the *Handbook*, then we shift those resources to National Consumers Week for a couple more months, and then we do a conference There is no wasted effort under the present system.

Mrs. **Knauer**. Also, we plan the Congressional Constituent Exposition so that when the new Congress comes we can help. We present to each new caseworker a directory of key Federal agency complaint handlers. Also, they meet many of these persons face-to-face at the exhibit. As Mr. Steeves said, we concentrate on one initiative and then move around to the next.

Mr. **Green**. I do understand.

Thank you, Madam Chairman.

FINANCIAL SERVICES ACTIVITIES

Mrs. **Boggs**. If I may just add something to that, you not only respond to the ongoing programs and publications in which you are involved, but you also address needs that evolve during the year.

Mrs. **Knauer**. Yes.

Mrs. **Boggs**. For instance, financial institutions have become a very difficult area of consumer concern. Would you tell us what you did about that?

Mrs. **Knauer**. We co-sponsored two national conferences and participants were so delighted that they decided to continue this dialogue. They developed a forum that is completely funded by the private sector. They meet regularly and are planning a conference here in Washington. We don't have to cover the cost of any of these follow-on efforts.

We attend and encourage the continuation. One of our staff sits on the policy committee. We feel the work we have done in product counterfeiting is similar. Most people weren't aware that they were surrounded by a sea of counterfeits. I think OCA has made a major contribution to consumer well-being, both from the standpoint of safety and economy.

The U.S. Customs Service says that last year there were 18 to 19 billion dollars' worth of counterfeits in the American market place. These are not just Gucci bags and designer jeans, they are heart pumps, used in open-heart surgery, and helicopter and auto parts. Some parts have been directly related to failure in automobile brakes.

Heart pumps have been recalled and some have been found not just defective but containing counterfeit parts as well. These are life threatening.

Birth control pills were pulled off the market a year ago when counterfeits were discovered among genuine American-made pills. As you know, to raise public awareness, you were kind enough to open our exhibit on counterfeits at the beautiful, newly restored Customs House in New Orleans. The Customs Service has reported to us that there were over 1,000 visitors every day over a period of five months. That comes to roughly 200,000 people who were better informed about counterfeit products.

We feel that type of effort has been very helpful.

Mrs. BOGGS. Mrs. Knauer, who were the other groups that you are involved with in pulling together that exhibition?

Mrs. KNAUER. We worked closely with the U.S. Customs Service, which donated the space in a very beautiful building, and the International Anti-counterfeiting Coalition. These are the groups that have been responsible for seeking to curtail counterfeit products. But last year Congress passed, and the President signed, a new anti-counterfeiting bill we feel is going to crack down on counterfeiters. For the first time product counterfeiting will be a criminal offense. While we can't regulate or legislate, we in OCA can get out there and raise public awareness to the fact they must be better shoppers and question the goods that they buy to make sure they have a good product.

Of course, we also promoted the use of these new high technology labels and other identification markings. We developed a list of manufacturers that have such products, and the Chamber of Commerce used our data to inform their members of what was available to mark genuine products.

Mrs. BOGGS. I don't think that the bill would ever have been passed, would ever have come to the Congress nor to the Administration as a top priority, if you had not put on that exhibition.

Mrs. KNAUER. I agree because it created such a ground-swell of demand that something had to be done to protect the American consumer.

REDUCTION-IN-FORCE

Mrs. Boggs. If we could turn to page 12 of the justification which mentions a reduction in the force of up to 26 employees by the first of June. How many employees would actually be RIF'ed, versus retirements and transfers to other agencies?

Mrs. Knauer. I am going to let our budget person answer that.

Mr. Marvin. We have a staff of 31 now, Madam Chairman, and we have to be down to five by the end of the year. We met with departmental officials and developed estimates of impact based upon past experiences in similar reductions-in-force. It is our expectation that of the 26 that would be affected, five would retire, and five could find jobs elsewhere. Of the remaining employees, five would ultimately fall in a "worse case scenario" and draw on their separation pay, unused annual leave, and then exhaust unemployment compensation.

The remaining 11 would be somewhere in between. Some would be able to get a job after a few weeks, but others might require longer to find employment. Two persons having time limited appointments would not be continued on the staff. Except for the five persons who retire and the five who get jobs elsewhere, there could be some adverse impact on all employees as a result of the staffing changes.

Mrs. Knauer. That is estimated, isn't it, Frank, at about $200,000 by HHS and haven't they indicated that we would have to absorb that in FY 1986? That would mean we would have to start fairly early.

Mrs. Boggs. That was the next question we were going to propose. Would you supply for the record exactly what the $200,000 would be used for in termination costs?

Mr. Marvin. We will be pleased to.

[The information follows:]

Personnel termination costs

Lump sum leave	$89,629
Severance pay	86,291
Unemployment compensation	26,780
Total	$202,700

REPROGRAMMING

Mrs. Boggs. What is your current schedule for reprogramming funds and terminating employees?

Mr. Marvin. Madam Chairman, we are now developing a letter to be sent to the Committee requesting reprogramming. Basically, it is in the area of personnel services. We would take the monies that would have been devoted to salaries of employees, and use that to cover lump sum leave payments and the contributions to be set aside for unemployment compensation. Most of the money to meet the $200,000 phase-down and the $85,000 Gramm-Rudman cut would have to come out of personnel services.

If we had other savings, we would probably need to spend the savings to move the furniture out of the building, to take out telephone communication lines, to build a wall or so, and to otherwise meet the incidental costs of reducing the staff.

Mrs. **Knauer**. We have fixed cost rent, of course, and also our current commitment for the distribution of the *Consumer's Resource Handbook* at the Consumer Information Center and also our responsibilities in National Consumers Week. Would you say they are 40 percent of our budget?

Mr. **Marvin**. Yes.

Mrs. **Knauer**. Utilities, rent—you can't do anything about those costs.

POSITIONS AND FTE REQUESTED

Mrs. **Boggs**. Page 13 shows six full-time positions in 1987, but the request is for only five FTE. Can you explain that discrepancy?

Mr. **Marvin**. We believe during a period of time that there may be two individuals serving in a similar capacity, thus giving us a total of six people, but over the period of a year there would only be the equivalent of five full time employees. We now have two part time employees who in total cover about one FTE.

PERSONNEL GRADES

Mrs. **Boggs**. In looking at the schedule of positions, one thing looks out of place. There are all chiefs, but no indians.

I assume that is because all of the chiefs have been indians as well. Why does OCA need a SES Deputy Director to supervise only four people?

Mrs. **Knauer**. I think the Deputy Director would take over legal functions as well. It is a policy development position and I have been very fortunate in all the deputies I have had through the years. All of them have been lawyers and very effective. Under this proposed budget, we would all be wearing many different hats.

Mr. **Steeves**. Madam Chairman, Mrs. Knauer is very gracious to her deputies. I don't want to detract from that comment, but we are looking at three professionals that we feel have to be highly skilled policy formulators. They have to be experts.

There will be no professional staff to do the research and the functions so essential in the policy areas in which we operate and advise. We will have to rely on on-site expertise; that is the reason for the high level.

Mrs. **Boggs**. That includes the two G.S. 15s?

Mr. **Steeves**. Yes.

Mrs. **Boggs**. The schedule on page 18 shows that the lowest graded position at OCA in 1987 will be a G.S. 11. Who is going to do the typing?

Mr. **Marvin**. That would be Mrs. Knauer's secretary.

Mrs. **Boggs**. Why isn't she doing it herself?

Mrs. **Knauer**. Unfortunately, I am a one finger typist.

TRAVEL

Mrs. **Boggs**. So am I, but I go very fast.

On page 14, look at the travel budget. If overall dollars and FTEs are reduced by 80 percent, why does travel stay at exactly the same level as in 1986 at $45,000?

Mrs. **Knauer**. Madam Chairman, if we are to influence all outside groups, whether it is at conventions or other meetings, we will have to travel. Any foreign travel is covered by the State Department. Our request is almost totally for domestic travel.

We feel it is very important that our top people travel. We made 105 different trips during the year. I made 118 speeches and held about the same number of interviews through the year. You have to get the body from one place to another and it would be especially so in the new proposed policy guidance role. It would be even more important to get out and try to encourage others to assume our past operational activities.

Mrs. **Boggs**. That was one of the questions that occurred to me during your testimony. You have stated that rather than organizing and conducting conferences on major issues facing consumers, OCA staff will participate in such forums. Who is going to organize the forums in which OCA will be participating?

Mrs. **Knauer**. Well, we have had a good track record in stimulating people to join us because in all the conferences we have sponsored we have put in staff time and a little money for printing. But, the private sector has carried the major financial burden.

We would hope that by stimulating, showing them a need, suggesting other people to work with them that we will be able to have as many conferences. But, I suppose we have to wait and see if that is at all possible.

Mrs. **Boggs**. Are you saying the travel money is needed because priority will be placed on attendance of OCA principles at a wide range of domestic and international meetings, as your testimony states?

Mrs. **Knauer**. Yes.

Mr. **Steeves**. Madam Chairman, if I might add a further explanation of the travel funds. That was a difficult choice for us in constructing the budget. But, travel is necessary when you take an issue such as product counterfeiting, of concern to us in the United States and making it international. We currently have stimulated the OECD Policy Committee to do a survey of all OECD countries in trying to duplicate the United States experience and awareness.

In our budgets since 1981, we have not provided for any foreign travel for our staff to participate in work shops and conferences on issues of interest to us here. In part, some of the money that is in the travel budget would include activities in the international arena that we have been unable to fund in the past.

Travel is an activity that we normally do and it would be an activity that would have more focus when we have a more policy-oriented staff than now when we are carrying out some operational activities.

Most of the travel now is by Mrs. Knauer to present programs; under the new scenario, the amount and character of travel would not change significantly.

Mrs. **Boggs**. I would assume the demand would increase.

Mr. **Steeves**. It might even increase, yes.

THIRD-PARTY DISPUTE RESOLUTION

Mrs. **Boggs**. In your testimony, Mrs. Knauer, you said that business will be encouraged to resolve marketplace complaints through non-judicial third party dispute resolution mechanisms. How will they be encouraged to do this?

Mrs. **Knauer**. In the past we have worked with the American Bar Association. That grew out of a conference we had in 1983 in which we invited those who were involved in non-judicial types of complaint resolution. Groups interested in arbitration programs, such as the Council of Better Business Bureaus, got together and out of that meeting the American Bar Association developed what they call the multi-door courthouse program. They have it in three cities, Houston, Dallas and D.C. At the courthouse there is staff which gives people advice if they have a domestic problem or a problem with real estate titles and so forth. Also, they help people who don't have a lawyer.

This multi-door program has been very successful. The ABA is seeking to expand it. I have toured the one in Houston and it is amazing. People are lining up to get advice. And they also do a certain amount of negotiation and arbitration to keep people from going to court and further burdening our court system.

Mr. **Steeves**. Madam Chairman, if I might just add, part of the encouragement to business would be the momentum of the last four or five years that we have focused through OCA-sponsored conferences. Some of it would come out of the landmark study of complaint handling that is now being updated. In the past we have been successful in getting the American Arbitration Association and the American Bar Association and others to help.

So we feel that current efforts will continue even with a reduced effort on our part for a while. We will just have to rely on other people to carry the ball.

Mr. **Boggs**. How are you going to do this without materials to present and to distribute, without research that goes into it by your own staff before you attend the meetings? How are you going to accomplish this with five people?

Mrs. **Knauer**. That is the big question.

Mr. **Steeves**. New activities and initiatives will be less in number, obviously, with a smaller staff and perhaps some beneficial activities will not be undertaken. Some of the things we have been able to do include our work to organize the aging and energy consortium. They were almost warring factions who didn't know they could get anything out of working together. The financial services industry was also a very polarized constituency that we brought together for common good.

I think in the arbitration dispute resolution conferences we had the same results. That took a lot of staff work and separate negotiations and mediation to finally bring the groups together.

We obviously will be less able to do those kinds of activities. We have to pick our options much more carefully in the future because of the large commitment as a percentage of our staff that would be required. Thus, I would expect that we would just undertake fewer of these major initiatives.

But again, when one has to eliminate activities because of the budget cuts, it is a matter of judgment.

HYPOTHERMIA

Mrs. **Boggs**. When you get into areas such as the prevention of hypothermia and the development of a thermometer that would be sensitive enough to register the wider range of temperatures, who is going to take that over?

Mr. **Steeves**. Well, at this stage we think that project is doing quite well. Getting to this point took the real effort. The American Society of Testing Materials is now developing a standard, but, I think without Mrs. Knauer's pushing of FDA, some of the other Government agencies, ASTM and the manufacturers, they never would have focused on the problem and the need for the standard.

In the hypothermia case, ASTM has developed a suitable standard for electronic thermometers and now they are moving to glass/mercury thermometers. It will be future projects of a similar nature that will be reduced rather than existing projects. The existing projects may be carried forward on their own momentum to successful conclusions.

Mrs. **Knauer**. But each day new consumer concerns are becoming evident. For instance, we suddenly uncovered telemarketing fraud. We have an industry that uses the telephone for sales purposes. There are ethical companies, but there is a fringe group of people who are out to make a fast dollar at the expense of the consumer. They mislead people through telephone calls, usually at night, and promise trips to Bermuda and diamond rings. Well, some people are naive and willingly give their credit card number over the phone; that is all a scam operator wants so he can then make unauthorized charges against the consumer's account.

Also, we have been giving the counterfeit issue much publicity. Last summer we made a suggestion to the whole industry that those who extend credit get together and sponsor a single "800" toll free telephone number for consumers to report suspicious solicitations. If we raise the national consciousness to the fact that these are scams and boiler-room operations, consumers would know who to call just like everyone knows the 911 number for police. We hoped that the industry would accept the idea—and they have responded.

I made a speech at the conference of the International Association of Credit Card Investors, and they thought the idea was great. We are getting a lot of business support, and it looks as if this 800 number would cost about $100,000 a year to operate. I understand that Citicorp, which issues a lot of credit cards, has already pledged $50,000.

This was a consumer problem that we wanted to address and we brought interested groups together. The trade associations, credit card issuing firms and others are enthusiastic on this subject and they are working together. We feel confident this will help solve the problem.

UNEMPLOYED PERSONS

Mrs. **Boggs**. Who would take up such programs as putting together audio-visual packages to help the unemployed cope with financial and psychological problems?

Mrs. **Knauer**. At the time there was significant unemployment in Detroit we worked with the Detroit Community College, the Ford Foundation and Group W Television in producing eight or ten T.V. segments giving advice to the unemployed. They were broadcast not only in the Detroit area, but nationally. We were asked to be host.

This was a great idea and we worked with psychologists and others to advise the unemployed on how to find a new job and to live on limited budgets. The programs reached seven million people. If those listening to the programs saved only 50 cents, then that alone would have created a $3.5 million savings for consumers in addition, of course, to the positive psychological effects of how to deal with unemployment.

The problems of the unemployed were of real concern. People were simply crawling into bed and not getting up in the morning. There was child and wife abuse. The whole community was upset. They asked us to participate, and we all felt our efforts were helpful. helpful.

ADEQUACY OF FUTURE STAFFING LEVELS

Mrs. **Boggs**. That was done with your own expert knowledge and your ability to advise, backed up by the kind of research that you could have available to you and by the types of materials and publications that could be produced to be helpful. Will you be able to continue to do that with five persons?

Mrs. **Knauer**. We will have to set priorities. I have never had to function with so few people before and many of the people in the office were people that I chose as far back as 1969. They have been very loyal to the office mission and each one has a network of people with whom they work, such as in the aging communities and the low income area. They all have expertise and it would be unfortunate if and when this team was broken up, because I think they have been effective.

I think we have used money that Congress has given us in a responsible way, but we all are faced with budget deficits. As I said before, OCA will certainly try to do its part.

Mrs. **Boggs**. Well, the monies that have been saved in the private sector and in the Government sector from the activities that have been produced by your agency certainly make up for the amount of monies that you have asked for from the Government.

Mrs. **Knauer**. Thank you.

Closing Remarks

Mrs. **Boggs**. I think that the cuts are severe. When I looked over the budget request and as I was coming here this morning, I felt that I was off to see the wizard, the wonderful Wizard of Oz, somebody who could actually expect your agency to do the commendable job that you have accomplished on such a ridiculously low budget.

We do thank you for your explanation, all of you, and for your testimony.

Mrs. **Knauer**. Thank you very much, Madam Chairman.

[The justifications follow:]

OFFICE OF CONSUMER AFFAIRS

ESTIMATE OF APPROPRIATIONS

FISCAL YEAR 1987

DEPARTMENT OF HEALTH & HUMAN SERVICES · USA

OFFICE OF CCNSUMER AFFAIRS

I. PURPOSE OF FY 1987 BUDGET REQUEST

The staff of the Office of Consumer Affairs (OCA) provides leadership and advice on consumer related program activities of Federal agencies. (The OCA Director is also Special Adviser to the President for Consumer Affairs and Chairperson of the Consumer Affairs Council.) Funds requested in this budget will provide resources necessary to:

1. Provide guidance on precedent setting initiatives of government, business and constituent groups seeking to foster the interests of consumers in the marketplace as envisioned in Executive Order 11583,

2. Monitor the work of 41 Federal agencies which are members of the Consumer Affairs Council established by Executive Order 12160,

3. Provide policy oversight to the Consumer Information Center pursuant to Executive Order 11566, and

4. Provide advice on significant consumer issues to the staff of The White House Office and to the President.

II. CHANGES IN FY 1986 AND FY 1987

	Budget Authority	Full Time Permanent Positions	Full Time Equivalent Employment Full Time	Other
FY 1986 Appropriation	$1,988,000	34	31	2
Gramm-Rudman-Hollings Sequester	-85,000	-3	-3	0
Revised FY 1986 Budget	1,903,000	31	28	2
(1986 Phase-down)	(200,000)		(-8)	
FY 1987 Budget Request	400,000	6	5	0
Change: Revised FY 1986 Budget - FY 1987 Budget Request	-1,503,000	-25	-23	-2

The proposed changes in funding and staffing are part of the Administration's effort to reduce expenditures and thus the Federal budget deficit.

To offset resource changes, OCA personnel will work through designated Federal agency liaison officers of the Consumer Affairs Council as those agencies carry out their statutory responsibilities. They will also encourage business groups, constituent consumer groups and non-Federal governments to continue to build upon the promising initiatives resulting from past cooperative efforts such as those relating to improving the handling of consumer complaints. Information programs will rely more heavily on the commercial news media to reach large numbers of consumers. Staff effort will be concentrated on major policy initiatives that are not being addressed adequately by others, and only in cases where the OCA effort may result in significant benefit for consumers.

In recognition of the more policy oriented nature of staff activities, action will be taken during FY 1987 to reorganize and incorporate the present United States Office of Consumer Affairs into a more enhanced Office of the Special Adviser to the President for Consumer Affairs.

To enable full implementation of the shift to a more policy oriented mission, beginning on October 1, 1986, funds appropriated by the Congress in FY 1986 will be used to cover $200,000 phase-down costs such as lump sum leave, severance pay and unemployment compensation. A reduction-in-force of 26 employees may be necessary as soon as June 1, 1986 to meet these phase-down costs and to absorb the $85,000 Gramm-Rudman-Hollings sequester. (FTE will be reduced by 11 from 33 to 22 in 1986 -- 8 FTE are for the $200,000 phase-down and 3 FTE and $85,000 are for the Gramm-Rudman-Hollings sequester.)

III. PROPOSED APPROPRIATION LANGUAGE

Office of Consumer Affairs

For necessary expenses of the Office of Consumer Affairs, including services authorized by 5 U.S.C. 3109, ($1,988,000) $400,000. (Department of Housing and Urban Development-Independent Agencies Appropriations Act, 1986.)

IV. PROGRAM OBJECTIVES OF THE OFFICE OF CONSUMER AFFAIRS

Estimated Distribution of Full Time Equivalent Staffing and Funding
(Dollars in Thousands)

		Actual FY 1985		Estimated FY 1986		Estimated FY 1987	
		$	FTE	$	FTE	$	FTE
1.	Resolve marketplace problems by providing ideas, incentive and opportunities for voluntary action by business, government and constituent groups.	534	9.8	493	6.4	104	1.3
2.	Improve consumer education by providing national leadership in efforts of educators, business and government.	224	4.2	238	3.2	72	0.9
3.	Inform constituent groups and individuals of governmental actions and marketplace changes affecting them as consumers.	585	4.9	573	3.2	72	0.9
4.	Guide Federal agencies of the Consumer Affairs Council in improving the management, coordination and effectiveness of Federal consumer programs.	80	1.5	71	1.0	40	0.5
5.	Represent the interest of consumers in trade and other international issues.	69	1.3	62	0.9	32	0.4
6.	Evaluate and provide a consumer viewpoint in legislation, regulations and other domestic policy proposals.	187	3.5	128	1.7	64	0.8
	Administration/Executive Direction.	416	7.8	338	5.6	16	0.2
	TOTAL	2,095	33.0	1,903	22.0	400	5.0

V. ACCOMPLISHMENTS IN FY 1985

1. Resolve marketplace problems by providing ideas, incentives and opportunities for voluntary action by business, government and constituent groups.

On 250 occasions during FY 1985, the OCA staff brought together principals in small groups or in conference settings to exchange views to develop a better understanding of issues and to find ways to solve generic problems without governmental action. There were also some 1,500 additional staff level planning and follow-on contacts. The following are specific examples.

- OCA has an ongoing program with leaders of industry, constituent groups and government agencies to reduce the economic and safety threats of counterfeit products. These include meetings with such groups as the International Anticounterfeiting Coalition and public information programs which were initiated by OCA long before product counterfeiting was a widely recognized problem. In June 1985 USOCA cosponsored a Product Counterfeiting Conference with the Council of Better Business Bureaus. The OCA staff also encouraged counterfeit-proof identification systems for consumer products and developed a list of manufacturers of counterfeit-proof identification systems. Subsequently the U.S. Chamber of Commerce used the list to explain to its members the types of protection available.

- Wheelchair-bound persons have difficulty in traveling by planes, trains and buses. OCA officers met with representatives of consumer organizations and commercial carriers stressing not only equity for individuals, but the significant untapped market of one-half million persons restricted to wheelchairs.

- Each year up to 50,000 deaths, mostly of elderly persons, are associated with hypothermia. Virtually all homes and many health professionals and institutions do not have appropriate thermometers to measure the condition which is often mistaken for other problems. OCA brought together FDA, the American Society for Testing and Materials (ASTM) Thermometry Committees and the Energy and Aging Consortium to discuss the issue. The result was agreement by ASTM to develop a standard for thermometers that can measure the full range of human temperatures, low temperatures as well as fever, which commonly used thermometers cannot do.

- The OCA staff worked to focus attention on consumer fraud in the commodites market, which especially affects older consumers. The results were impressive. The National Futures Association established a Consumer Education Advisory Countil and published a Commodity Fraud Checklist to help consumers ask the right questions of solicitors and to identify persons to contact in case of problems. They also published a comprehensive flyer, Understanding Opportunity and Risk in Commodities Futures Trading.

- As a result of the two national conferences convened by OCA and others on problems of the financial services industry:

-- The American Bankers Association and American Association of Retired Persons developed a teaching module on how bankers can better communicate with older citizens.

-- A permanent task force was established to conduct consumer oriented research and solve marketplace problems, thereby avoiding the need for regulation.

-- A private firm independently developed a video package of excerpts from the OCA sponsored Phoenix Financial Services Conference for use as an education tool.

o Direct marketing techniques are consistently a source of the nation's most common consumer complaints (these cover mail orders, telemarketing sweepstakes, catalogs, mailing lists and book and record clubs.) But the complaints are difficult to address on a systematic basis because of the fractionalization of responsibilities of Federal/state and local government, information gaps, geographical limits of authority and the high cost of prosecuting cases. OCA has been successful in bringing responsible groups together to begin a dialog on this problem.

o In June 1985, CCA convened a workshop on mail order fraud, attended by officials of five Federal agencies, the National Association of Attorneys General, the National Association of Consumer Agency Administrators and the Direct Marketing Association. It was so fruitful that the industry in turn convened a pilot conference of consumer affairs professionals from the public and private sector and industry officials to discuss not only problems associated with mail fraud, but also problems of other elements of the direct marketing industry -- catalog sales, mailing lists, etc.

o In a related effort, because of the severity of the problem, OCA began a major initiative concerning telemarketing schemes. These schemes, to obtain a consumer's credit card number went from virtually nothing in 1983 to an estimated $40 million in 1985. A major problem in apprehending telemarketing fraud operators is the four-to-six week delay which occurs before they are detected. To rectify this problem, the American Telemarketing Association, the International Association of Credit Card Investigators and credit card companies are working on an OCA proposal to develop an "800" telephone number for consumers to report suspicious sales calls to an industry center for subsequent referral to appropriate law enforcement agencies, if necessary.

2. Improve consumer education by providing national leadership in efforts of educators, business and government.

o Recent data confirms that many persons lack the basic knowledge to deal effectively in our complex marketplace. "National Consumers Week" (NCW) is a major Presidentially proclaimed annual initiative used by OCA to promote national awareness of the need for consumer education through voluntary programs impacting directly on consumers at the state and local level. NCW programs reached an estimated 50 million persons in 1985.

- As a corollary effort to its direct consumer education initiatives, OCA worked directly with leaders of groups which can effect educational improvements such as state and local governments, business and educators. Improvements come slowly and require systematic, consistent and broad-based partnership efforts to (1) identify and publicize successful low-cost programs, (2) encourage research which is crucial to improvement such as better cost/benefit base data and, (3) improve teacher capability through in-service education. For example, in 1985 OCA:

  --- Convened, with business sponsorship, a conference of consumer and economic education leaders from the academic and business sectors to advance national awareness of consumer and economic education as a basic curriculum need.

  -- Published a report on OCA's innovative First National Consumer Education Roundtable in which national leaders from business, government and educational sectors assessed priority needs and strategies for consumer education at all levels.

  -- Designed a community-based consumer education program and cosponsored with business its nationwide implementation through the world's largest federation of women's clubs.

  -- Fostered widespread use of a newly developed nationwide computer network through which educators can directly access instructional materials in consumer and economic education.

  -- Guided the Departments of the Army and Navy in development of formal training programs in Consumer and Financial Management for personnel and their families as a model for use in all DoD services.

  -- Evaluated elementary and secondary consumer and economic programs and school curriculums, working with national leaders to identify and foster opportunities for nationwide application through public and private sector partnerships.

3. Inform constituent groups and individuals of governmental actions and marketplace changes affecting them as consumers.

- The multi-media mix of OCA's information program in FY 1985 included 12 issues of Consumer News, a monthly newsletter to 7,000 decisionmakers, 30 minutes of radio public service announcements distributed to 1,500 radio stations in the top 100 markets, 112 speeches to groups, and 118 interviews with print and broadcast personnel.

- As part of the effort to encourage the private sector to meet consumer information needs OCA, the Consumer Information Center (CIC) and Bell Atlantic developed a Consumer's Guide to Telephone Service. This publication is designed to reduce the confusion and difficulty consumers have in understanding monthly telephone bills and long distance service charges. All costs for printing and distributing of 80,000 copies through the CIC Pueblo, Colorado facility are funded by Bell Atlantic.

- Work has been completed on the revision of the Consumer's Resource Handbook. This is a "what to do, where to go" guide to persons who have a problem arising out of the purchase of goods and services. Through the assistance of 20 Federal agencies, previous editions have guided millions of consumers with problems directly to the most appropriate source of help, most frequently the business community. The Handbook reduces the number of letters and inquiries misdirected to Federal agencies, which cost taxpayers millions of dollars each year, and helps consumers gain faster, more satisfactory resolution of their problems.

4. Guide Federal agencies of the Consumer Affairs Council in improving the management, coordination and effectiveness of Federal consumer programs

A program has been established under the auspices of the Consumer Affairs Council to upgrade the skills of Federal consumer affairs personnel and to improve efficiency of agencies in meeting the standards Executive Order 12160 sets for Federal agency responsiveness to consumers. Five recent training sessions under the program covered (1) improving complaint handling systems, (2) cost effective consumer publications, (3) use of new electronic media for consumer education, (4) developing effective public service announcements, and (5) handling complaints and inquiries via telephone.

- On February 15, OCA conducted its fourth biennial Constituent Resource Exposition in the Cannon House Caucus Room. Representatives of 36 Federal agencies and more than 1,000 Congressional staff members met to discuss ways to insure fast and effective handling of constituent complaints and requests for information.

- OCA and five other member agencies of the Consumer Affairs Council have sponsored an update of the landmark study, "Consumer Complaint Handling in America." Historically, one of OCA's most significant accomplishments was conceiving and encouraging Federal agencies to join together in an initial appraisal of the handling of consumer complaints in America by government, business and voluntary groups. The initial study, the first and only one of its kind, led to the establishment of Executive Order 12160 standards for handling complaints by Federal agencies. It also led to a series of studies by others which demonstrated that there are economic, competitive and social benefits from responsible complaint handling. Moreover, the study recommendations became a model for state and local governments, voluntary groups and businesses. The update, to be released in late April 1986, is expected to have similar impact.

5. Represent the interest of consumers in trade and other international issues.

The Special Adviser to the President for Consumer Affairs heads the U.S. delegation to the Organization for Economic Cooperation and Development's Committee on Consumer Policy. In her capacity as Vice Chairman of the Committee, she coordinated U.S. participation in the Committee's work, brought about Committee sponsorship of an OECD based international conference on Consumer Policy and International Trade, and convinced the Committee to survey and report on the impact of product counterfeiting in member countries.

In 1985 the Deputy Director, OCA served as the chief negotiator for the United States in the development of Guidelines for Consumer Protection subsequently approved by the United Nations General Assembly. He also served as chief negotiator for the United States at prior negotiations on this issue held by the UN Economic and Social Council in Geneva, Switzerland and New York City.

The OCA staff also provided technical assistance to the Office of the U.S. Trade Representative on recommendations to the President regarding the key trade policy decisions regarding proposed import regulations and the impact on consumers.

6. Evaluate and provide a consumer viewpoint in legislation, regulations and other domestic policy proposals.

In FY 1985 OCA staff routinely participated in the Executive Branch legislative review process by providing comments on consumer legislation. The OCA staff also examined agency regulatory proposals to provide a consumer perspective when it might not otherwise have been present. Some issues chosen for comment included credit card liability, food safety, food irradiation, food labeling, grocery advertising, airline passenger protection and toy safety.

Toy Safety Act. OCA was the Administration witness on the Toy Safety Act of 1984 (P.L. 98-491) appearing before the Senate Consumer Subcommittee. Later the President was encouraged to sign the enrolled bill into law. These activities by OCA helped passage of this Act at a crucial time late in the 98th Congress, and thus prevented a possible holdover for the 99th Congress, or no action at all.

FTC Rule 424 - Retail Food Store Advertising and Marketing Practices. In response to the FTC's request for comment on whether to rescind or revise Rule 424, OCA suggested that the FTC not repeal, but rather modify the rule to permit food stores to offer customers rainchecks or the substitution of comparable goods at the same percentage price reduction as the out-of-stock items. Consumer and industry sources and press accounts have indicated that the OCA position was a rallying point for a compromise acceptable to FTC, consumers and industry.

Development of Voluntary Standards. A senior OCA officer provided a consumer perspective during meetings of the Interagency Committee on Standards Policy which led to issuance of Circular A-119 by the Office of Management and Budget. The circular provides policy and administrative guidance to Federal agencies on using voluntary standards for procurement and regulatory purposes, on involvement of private sector organizations to develop such standards, and on coordinating Executive Branch participation.

Expedited Funds Availability Act. As part of the Executive Branch review of H.R. 2443, a bill requiring the Federal Reserve Board to develop an expedited funds availability system, OCA provided an extensive analysis of various alternatives. The proposal recommended by OCA would require full written disclosure of a bank's "hold" period if not adopted voluntarily, and the honoring of certain categories of checks as a matter of policy.

V. PROGRAMS FOR FY 1987

The FY 1987 budget request for OCA is 5 FTE and $400,000, a decrease of 28 FTE and $1,588,000 from the level appropriated by the Congress for OCA activities (25 FTE and $1,503,000 after application of Gramm-Rudman-Hollings). The change in resources will provide a highly visible and cost effective consumer policy guidance office in the Executive Branch. This change reflects the reductions essential to achieving Administration and Congressional deficit reduction objectives and is parallel to those for some other Federal agency programs.

1. Emphasis will be on national policy matters affecting large numbers of consumers.
2. Federal agencies and non-Federal groups will be encouraged to assume responsibility for more operational activities previously undertaken by OCA.
3. The 41 agencies which constitute the Consumer Affairs Council will be the primary channel for coordinating consumer-related activities of the Federal government.
4. The private sector and non-Federal government groups will be encouraged to assume a larger share in the cost of cooperative programs and activities.
5. OCA will increasingly serve as a catalyst and adviser on partnerships proposed among business, government and consumers.
6. Direct daily contact between the OCA staff and individual consumers on such matters as complaints and marketplace information will be deemphasized in favor of fostering action by the business sector, local government, consumer groups, the media and relevant other Federal offices.
7. OCA will apply more rigorously the current criteria for involvement in issues: that is, higher priority will be placed on those matters which affect large numbers of, and/or have a significant economic impact on consumers; matters in which OCA personnel have technical expertise, and/or consumer issues which would not be addressed effectively by other groups.

A. Specific Changes in Program Initiatives Are as Follows.

1. Resolve marketplace problems by providing ideas, incentives and opportunities for voluntary action by business, government and constituent groups.

   o Rather than designing and conducting conferences on major issues facing consumers, the OCA staff will participate in such forums, thus saving staff time involved in planning and organization and associated costs for printing, postage and related facilities support. To obtain the views of consumer groups on emerging issues, priority will be placed on maintaining attendance of OCA principals at a wide range of domestic and international meetings. OCA will meet with representatives of groups having divergent interests in Washington, thus combining and reducing the total number of individual policy related sessions, consistent with available staff support. A priority will continue to be to organize issue discussions on consumer problems of women, elderly, minority, low income and disabled consumers.

- In 1987 the OCA staff will concentrate on promoting implementation of the results of a year-long contract study of complaint handling practices to be completed in 1986. A high priority will be placed on the business sector underwriting the cost of this promotion.

- Business will be encouraged to resolve marketplace complaints through non-judicial third-party dispute resolution mechanisms. OCA will continue to work closely with the American Bar Association, the Council of Better Business Bureaus, the American Arbitration Association and other similar groups as they assess the efficacy of alternative means to resolve consumer disputes and development of standards for third-party consumer dispute mechanisms.

- Research on consumer affairs issues in specific industries will be encouraged. (Recent studies have shown that activities addressing consumer concerns can increase consumer satisfaction and contribute to an improved competitive position, as well as profits for corporations.) The commercial media will be encouraged to publicize the studies to build a consensus for consumer responsiveness within and among industries.

2. Improve consumer education by providing national leadership in efforts of educators, business and government.

- Encouraging consumer education activities in and between governments, educational institutions, business and voluntary groups will be primarily through:

  - Participation at meetings sponsored by those groups to urge development of voluntary consumer information and education activities,

  - Serving as a clearinghouse for innovative and potentially effective consumer education activities and techniques, and by

  - Encouraging national business and private organizations to foster needed research, develop teaching materials, increase teacher training and other opportunities to foster the interdependency between consumer and economic education, and to more efficiently deliver improved consumer education to school students and the adult population.

- After five years of extensive support from OCA, it is expected that National Consumers Week activities will be increasingly self-sustaining. The efforts of government, business and consumer groups will build on previous years work through encouragement by Presidential proclamation and information materials developed and distributed by non-Federal sources.

3. Inform constitutent groups and individuals of governmental actions and marketplace changes affecting them as consumers.

Timely information on legislation, regulations and Administration actions relating to the marketplace will be disseminated through commercial media networks. The mix will include periodic press releases, feature articles, interviews with print and broadcast media and audio/visual programs using the existing U.S. Department of Agriculture satellite link reaching 525 stations on a weekly basis. The private sector will be encouraged to revise, reprint and distribute popular OCA publications such as the Consumer's Resource Handbook, Your Keys to Energy Efficiency, and reports such as Heat Stress and Hypothermia of special concern to the elderly.

While OCA will no longer use the publications distribution facility of the Consumer Information Center in Pueblo, Colorado, OCA will seek opportunities to stimulate business organizations to use the CIC "fee for service" options as a medium for distributing information of value to consumers.

4. Guide Federal agencies of the Consumer Affairs Council in improving the management, coordination and effectiveness of Federal consumer programs.

The Consumer Affairs Council will provide leadership and coordination to insure that agency consumer programs are implemented effectively, and to maximize effort, promote efficiency and interagency cooperation, and eliminate inconsistency among Federal agency consumer programs. In quarterly meetings of the Council and ad hoc meetings with individual designees, agency personnel will be encouraged to examine and implement the recommendations of the update study of complaint handling, particularly those which result in making the handling of complaints more cost effective.

5. Represent the interest of consumers in trade and other international issues.

The OCA staff will provide basic services necessary to support the Special Adviser to the President for Consumer Affairs as head of the U.S. delegation to the OECD Committee on Consumer Policy.

To the extent resources are available, priority will be on participation in international consumer policy and trade related meetings as pressures grow for protectionist measures which impact on the availability, quality and price of goods for consumers. Trade policy, product safety and the proposals to come before the General Agreements on Tariff and Trade will be principal areas of concentration.

6. Evaluate and provide a consumer viewpoint in legislation, regulations and other domestic policy proposals.

The OCA staff will participate in the legislative and regulatory review process when a significant consumer perspective would not otherwise be considered. Priority consideration will be trade issues and their effect on consumers, and deregulation or simplification of regulatory mechanisms to allow more marketplace efficiency and flexibility.

VI. CHANGES IN FY 1986

Budget Authority	FTE	
$1,988,000	33	P.L. 99-160 Appropriation for OCA
-85,000	-3	Gramm-Rudman-Hollings sequestering
1,903,000	30	Revised budget authority for FY 1986
-200,000	-8	Phase-down costs
$1,703,000	22	Available for program operations

- The $85,000 decrease in the FY 1986 budget authority required by Gramm-Rudman-Hollings sequestering will be absorbed by reducing OCA staff employment during the fiscal year.

- OCA is committed to full implementation of a more streamlined office for FY 1987 beginning on October 1, 1986. It is expected that all office phase-down expenses, including terminating appointments of employees in excess of the FY 1987 proposed level will be covered by FY 1986 funds. While communications and other office consolidation expenses may be negligible, costs associated with adverse personnel actions such as severance pay, lump sum leave payments and unemployment compensation are expected to be approximately $200,000.

- February 1, 1986 on-board staffing was 31. Because of phase-down costs and the Gramm-Rudman-Hollings sequester, a reduction in force of up to 26 employees may be necessary as soon as June 1, 1986.

- A request for reprogramming will be transmitted to the Congress under separate cover.

- From a program standpoint, the result of the preparatory phase-down actions and the 1986 Gramm-Rudman-Hollings reductions will be that OCA will move to a FY 1987 level of operation as early as June 1, 1986. The effect of this change is as described in Section V.

OFFICE OF THE SPECIAL ADVISER TO THE PRESIDENT FOR CONSUMER AFFAIRS

Detail of Full Time Permanent Positions

	FY 1987
ES-2	
Special Adviser to the President for Consumer Affairs	1
ES-1	
Deputy Director	1
GM-15	
Consumer Affairs Officer	2
GS-13 and Below	2
Total Positions	6

STANDARD FORM 304
May 1969, Bureau of the Budget
Circular No. A-11, Revised
304-103

OBJECT CLASSIFICATION (in thousands of dollars)

Identification code 75-0137-0-1-506	1985 actual	1986 estimate	1987 estimate
Personnel compensation:			
11.1 Permanent positions	1,097	774	230
11.3 Positions other than permanent	61	79	---
11.5 Other personnel compensation	3	3	2
11.8 Special personal services payments	6	95	3
Total personnel compensation	1,167	951	235
Personnel benefits:			
12.1 Civilian	124	89	26
13.0 Benefits for former personnel	2	115	1
21.0 Travel and transportation of persons	41	45	45
22.0 Transportation of things			
23.1 Rental payments to GSA	184	105	42
23.2 Communications, Utilities & Other Rents	81	98	15
24.0 Printing and reproduction	102	102	13
25.0 Other services	360	370	16
26.0 Supplies and materials	16	16	6
31.0 Equipment	18	12	1
32.0 Lands and structures			
33.0 Investments and loans			
41.0 Grants, subsidies, and contributions			
42.0 Insurance claims and indemnities			
43.0 Interest and dividends			
44.0 Refunds			
99.0 Total obligations	2,095	1,903	400

OFFICE OF THE SPECIAL ADVISER TO THE PRESIDENT FOR CONSUMER AFFAIRS

EXPLANATION OF ESTIMATE OF OBJECTS (Direct Obligations)

11. Personnel Compensation of $235,000. Provides $230,000 for the equivalent full time employment of five persons, $3,000 for Merit Pay Increases and $2,000 for overtime.

12. Personnel Benefits $26,000. Provides for contribution to the Civil Service Retirement Fund, Group Life Insurance, Health Benefits and Social Security payments.

13. Benefits for Former Personnel $1,000. Provides for contribution to the Unemployment Compensation Fund.

21. Travel and Transportation of Persons $45,000. Provides for essential contact with business, consumer organizations, state and local government bodies and educators.

23.1 Rental Payments to GSA $42,000. These funds are provided to the General Services Administration, pursuant to P.L. 92-313 to cover the cost of building space occupied by the OCA staff.

23.2 Communications, Utilities and Other Rents $15,000. Covers comprehensive telephone and telegraph services ($11,000), and postage and contractual mail services ($4,000).

24. Printing and Reproduction $13,000. This amount will provide educational materials to reach consumer groups and individuals in keeping with minimum program requirements. Principal costs are charges for an office machine copier ($5,000), conference and meeting related printed materials ($2,000), fact sheets providing timely advice to consumers ($2,000), and miscellaneous printing costs ($4,000).

25. Other Services $16,000. Includes $3,000 for leased computer system time, office machine and computer maintenance ($6,000), employee training ($3,000), Career Education Program ($1,000), Public Health Service charges ($1,000), press clipping service ($1,000) and other miscellaneous administrative charges ($1,000).

26. Supplies and Materials $6,000. For necessary office and operating supplies (pencils, papers, notebooks and other desk top supplies), and work materials such as periodicals and reference publications.

31. Equipment $1,000. For replacement of office equipment and furniture as required.

STANDARD FORM 300
July 1964, Bureau of the Budget
Circular No. A-11, Revised.
300-101

Departmental Management
Office of Consumer Affairs
Program and Financing

Identification code 75-00137-0-1-506	19 85 actual	19 86 estimate	19 87 estimate
10.00 Total obligations........	2,095	1,903	400
Financing:			
25.00 Unobligated balance lapsing..................	1	--	--
40.00 Budget authority (appropriation)..........	2,096	1,903	400
Relation of obligations to outlays:			
71.00 Obligations incurred, net......................	2,095	1,903	400
72.40 Obligated balance, start of year..................	487	389	424
74.40 Obligated balance, end of year.....................	-389	-424	-295
77.00 Adjustment in expired Accounts.................	-49	---	----
90.00 Outlays..............	2,144	1,868	529

STANDARD FORM 300
July 1964, Bureau of the Budget
Circular No. A-11, Revised.
300-101

Department of Health and Human Services
Departmental Management
Office of the Special Adviser to the President for Consumer Affairs
Personnel Summary

Identification code 75-0137-0-1-506	FY 85 actual	FY 86 estimate	FY 87 estimate
Total number of full-time permanent positions	40	34	6
Total compensable workyears:			
Full-time equivalent employment	33	22	5
Average ES salary	$62,530	$62,530	$62,530
Average GS grade	9.74	9.97	13.25
Average GS salary	$31,852	$33,636	$40,631

STANDARD FORM 306
July 1968, Bureau of the Budget
Circular No. A-11, Revised.
[illegible]

OFFICE OF THE SPECIAL ADVISER TO THE PRESIDENT FOR CONSUMER AFFAIRS

DETAIL OF PERMANENT POSITIONS

75-0137-0-1-506	19 85 actual	19 86 estimate	19 87 estimate
Grades1/			
ES-02	1	1	1
ES-01	1	1	1
GM-15	6	6	2
GS-14	4	4	0
GS-13	0	0	0
GS-12	5	4	1
GS- 11	4	2	1
GS-10	0	0	0
GS-09	4	4	0
GS-08	3	3	0
GS-07	1	1	0
GS-06	4	2	0
GS-05	3	2	0
GS-04	2	2	0
GS-03	2	2	0
Total permanent positions	40	34	6
Unfilled positions, September 30	11	29	1
Total permanent employment, end of year	29	5	5

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TUESDAY, FEBRUARY 25, 1986.

NEIGHBORHOOD REINVESTMENT CORPORATION

WITNESSES

WILLIAM A. WHITESIDE, EXECUTIVE DIRECTOR
GEORGE KNIGHT, DEPUTY EXECUTIVE DIRECTOR
CAROL J. MCCABE, GENERAL COUNSEL
NATHAN NICHOLS, DIRECTOR, FIELD OPERATIONS

Mr. BOLAND. The Committee will come to order.

We are delighted to welcome the Neighborhood Reinvestment Corporation and William Whiteside, the Executive Director, who is favorably known to this Committee.

How many years now have you been coming up here?

Mr. WHITESIDE. Oh, about eight.

OPENING STATEMENT

Mr. BOLAND. You have seen this corporation grow, and you certainly have been one of the motivating forces and have given it great leadership. We are happy to have George Knight, Deputy Executive Director; Carol McCabe, General Counsel; and Nathan Nichols, Director of Field Operations.

I am glad to have you with us. As you have indicated in your justification, you are requesting $15,285,000 for fiscal year 1987. That is a reduction of $2,384,000 provided in fiscal year 1986. Why don't you go ahead with your statement and we will get into the justifications presently.

Mr. WHITESIDE. Thank you very much.

I would like to begin by thanking the Committee for their confidence in our work for providing us the $17,669,000 appropriation last year. As a result of that appropriation, we have been able to maintain the essential training and technical services required by the Neighborhood Housing Service's network, as well as sustain our rate of response to requests by NHSs to give them assistance in serving additional neighborhoods.

We have been able to continue supplying existing NHSs with tools to rehabilitate under-maintained apartment buildings and turn problem properties into neighborhood assets, to revitalize commercial areas and help owner/builders build their own homes and rehabilitate existing units.

In addition, we have been able to work in the lower East Side on the beginning stages of a mutual housing association demonstration, and we are developing a fund raising effort to match the million dollar capital grant that this committee enabled us to receive with $3 million in local and private resources.

We expect to assist two NHSs in developing the capacity to construct tracts of new homes for lower income families on cleared land in or adjacent to NHS neighborhoods. The growing NHS network is unparalleled in its ability to bring about positive neighborhood change through implementing systematic revitalization strategies, bringing long-term stabilization to neighborhoods without changing the fundamental socio-economic character.

POPULATION SERVED BY NHS

After the eight years of appearing before this Committee and actually 15 years of work on this effort, it is a little startling to note that one percent of the American population is now encompassed by NHS neighborhoods and a little over one percent of the Nation's housing stock is located in NHS neighborhoods. There are 207 active NHS neighborhoods and 34 where the work has been completed and they are now healthy and self-reliant. In those 241 neighborhoods there are 2.8 million Americans, 36 percent of them are black and ten percent Hispanic. Their median household income is 72 percent of the national median.

The loans that are made in the NHS neighborhoods are to people at the lower end of this scale as evidenced by the fact that the secondary market portfolio purchased by Neighborhood Housing Services of America shows an average family income of $12,000.

LEVERAGING AND REINVESTMENT

As a result of our development work and seed grants, we have been able to leverage over $200 million in local, public and private resources in direct support of NHS's work. A cumulative $4.4 billion in projected reinvestment will have been generated in the neighborhoods by the end of this year.

If we look at the $126 million that we have expended in federally appropriated funds, this is a ratio of $35 of reinvestment for every one dollar of direct Federal expenditure.

REDUCED FUNDING

Mr. BOLAND. That is probably as good or better a ratio as you get in any Government program.

Mr. WHITESIDE. Thank you. This year's request, as we mentioned, Mr. Chairman, is for $15,285,000. This is a 13.5 percent decrease in our appropriated funds.

When you consider reductions in other sources of funds, it is a 15.5 percent decrease in our "all sources" bottom line. This requested lower level of funding does necessitate a planned reduction in staffing and programmatic goals. We expect to be reducing our staff by 16 full time equivalent positions, or eight percent, to decrease our provision of programmatic components to NHSs, to reduce the number of program reviews and to forego the biennual NHS leadership conference which would have been held in fiscal year 1987.

We will be carefully prioritizing requests for the technical services requested by NHSs and we projected achieving the level of program goals shown in table 7 of the budget justification by reducing our grant amounts across-the-board in each individual undertaking.

I might add a comment to that, which is not included in my prepared statement, and that is that at the time we prepared the budget justification we were not aware of the depth of the proposed community development block grant cuts that would be occurring, and I must say that if those go as proposed, we would be hard put to meet all of our goals because of the lack of low cost capital available to the NHSs at the local level.

With that I would be pleased to take your questions.

[The statement of Mr. Whiteside follows:]

STATEMENT OF
WILLIAM A. WHITESIDE, EXECUTIVE DIRECTOR
NEIGHBORHOOD REINVESTMENT CORPORATION
BEFORE THE
HOUSE APPROPRIATIONS
SUBCOMMITTEE ON HUD-INDEPENDENT AGENCIES
ON
NEIGHBORHOOD REINVESTMENT CORPORATION
FISCAL YEAR 1987 BUDGET
FEBRUARY 25, 1986

Mr. Chairman and Members of the Committee, I would like to begin by thanking the Committee for its confidence in our work in approving the Neighborhood Reinvestment Corporation's fiscal 1986 appropriation at $17,669,000.

That appropriation level enabled the Neighborhood Reinvestment Corporation to maintain essential training and technical services needed by the Neighborhood Housing Services (NHS) network as well as to sustain our rate of response to requests for NHSs to serve additional neighborhoods. We have been able to continue supplying existing NHSs with tools to rehabilitate undermaintained apartment buildings, turn problem properties into neighborhood assets, revitalize neighborhood commercial areas, and to help owner-builders build their own new homes and rehabilitate existing units into new homes. In addition, we have been working with the Lower East Side Mutual Housing Association demonstration in New York City to match our million dollar capital grant with three million dollars in local and private resources, and we will be assisting two NHSs in developing the capacity to construct tracts of new homes for lower income families on cleared land in or adjacent to NHS neighborhoods.

The growing NHS network, despite increasingly tight local resources, continues to be unparalled in its ability to bring about positive neighborhood change through the implementation of systematic neighborhood revitalization strategies. These strategies are systematically bringing about the long-term stabilization of these neighborhoods without changing their fundamental socio-economic character. The NHS network represents a rebirth of pride, hope and self-help -- all of which are crucial elements of healthy neighborhoods of choice.

It is a bit startling to note that this "small as beautiful" approach now includes one out of every 100 homes in America. The 207 active NHS neighborhoods, and the 34 neighborhoods which through NHSs' assistance have achieved substantial self-reliance, contain 880,000 housing units, 1.1% of the nation's housing stock.

Over 2.8 million Americans reside in these 241 neighborhoods. Their population is 36% Black and 10% Hispanic, though the nation's population is 12% Black and 7% Hispanic. Four percent of the nation's households are female headed, while 19% of NHS neighborhood households are female headed.

The median income of NHS households is 72% of the national median. An analysis of the Neighborhood Housing Services of America (NHSA) secondary market loan portfolio shows that the average family income of the borrowers whose NHS loans were sold to NHSA was $12,160. A comparison of average borrower family incomes in selected NHS cities further showed these incomes to range from 43% (Baltimore) to 96% (Washington, D.C.) of 1980 city medians, and from 31% to 66% of the respective SMSAs.

NHS programs have provided direct housing rehabilitation, construction monitoring, financial counseling and/or direct loans or loan referral assistance to over 250,000 neighborhood residents; and Apartment Improvement Programs (AIPs) have directly effected the rehabilitation of more than 16,000 housing units. Together, using every human and financial resource available to them -- including hundreds of thousands of volunteer hours, business community leadership and budgetary support, and public sector programs and revolving loan fund support -- the NHS network (including AIPs and the Mutual Housing Association demonstration) has sparked over $3.5 billion in neighborhood reinvestment activity. This is projected to grow to $4.4 billion by the end of fiscal 1986.

The Neighborhood Reinvestment Corporation has facilitated the initial organization of these programs in 140 municipalities, assisted in expanding their efforts to 101 additional neighborhoods, and provided the seed grants to leverage over $200,000,000 in local public and private resources in direct support of NHSs' work. Even more importantly, Neighborhood Reinvestment has ensured the strength and viability of these neighborhood corporations by helping them to adjust to ever changing economic and fundraising environments, and by providing the training, technical services and additional programmatic tools they need to achieve their individual neighborhood goals.

Neighborhood Housing Services of America, whose operations are partially supported by grants from the Corporation, has, to date, secured social investment commitments of $22.5 million in support of the secondary market for NHS revolving loan funds. By the end of 1985, NHSA had purchased 1,778 NHS loans, replenishing local loan funds by a total of $18.2 million. In addition, through the provision of fundraising training and joint fundraising campaigns, NHSA assisted 81 NHSs in significantly broadening their bases of private, business community support of their local operations.

The cumulative $4.4 billion in reinvestment which will have been generated in NHS neighborhoods by the end of fiscal 1986 will result from the cumulative expenditure of $126,661,000 in federally appropriated funds. This is a ratio of $35 for every $1 of direct federal expenditure.

The Corporation's budget request for fiscal 1987 is $15,285,000. This amount represents a 13.5% decrease in our appropriated funding for fiscal 1986, and when reductions in other sources of funds are considered, a total reduction of 15.5% in all sources of funds is anticipated. A table showing sources and uses of funds for fiscal years 1982 to 1987 (proposed) follows on page 5.

These are challenging and difficult times, even more so in lower-income neighborhoods than for the rest of the nation. I realize, however, that just as millions of hard-working families are struggling to lead decent lives in safe and healthy neighborhoods, our nation is also struggling to live within its means. We recognize that your Committee is faced with an enormous challenge of selecting the most productive and efficient efforts, in order to avoid arbitrary across-the-board cuts, and we will cooperate in every way to help you achieve this goal.

We shall continue to carry out our work in the most cost-efficient and effective manner; however, the requested lower level of funding does necessitate planned reductions in staffing and program goals. In addition to reducing our staff by 16 full-time equivalent positions (8%), it will be necessary to decrease our provision of programmatic components to NHSs, reduce the number of program reviews, and forego the bi-annual NHS Leadership Conference, which would have been held in fiscal 1987. We will also need to forego new NHS Insurance Industry Full Partnerships and Mutual Housing Association initiatives, and carefully prioritize requests for intensive-effort technical services in consideration of the resources available to us.

Achieving the level of program goals proposed in Table 7 of the budget justification will require a reduction in the grant amounts provided with each individual undertaking. This will require that our services be limited to those communities which can demonstrate sufficient local leveraging of our reduced level of grants to achieve the desired purposes.

Thank you for the opportunity to present this testimony. I will be pleased to answer your questions on our work and our budget request.

NEIGHBORHOOD REINVESTMENT CORPORATION
Sources and Uses of Funds - All Sources of Funds
Fiscal Years 1982 to 1987

	Actual				Estimated	Proposed
	1982	1983	1984	1985	1986	1987
SOURCES OF FUNDS:						
Congressional Appropriations	$13,872,000	$15,512,000	$16,012,000	$15,512,000	$17,669,000	$15,285,000
Federal Home Loan Bank System	1,917,126[1]	380,596	400,000	400,000	200,000	...
Federal Reserve Board	...	400,000	400,000	400,000	200,000	...
Federal Deposit Insurance Corporation	...	200,000	...	...	...	...
Comptroller of the Currency	...	200,000	...	...	...	...
Interest Earnings and Other Revenue	1,302,466	943,048	1,185,851	1,113,000	1,071,000	800,000
Project Development	670,924	350,536	486,806	497,000	600,000	500,000
Carry Forward from Previous Year	1,158,569	487,348	413,702[2]	318,000	125,000	200,000
Deobligation of Prior Year Undisbursed Grants	...	...	152,844	191,000	...	...
TOTAL SOURCES	$18,921,085	$18,473,528	$19,051,203	$18,431,000	$19,865,000	$16,785,000
RESULTS:						
Neighborhood Reinvestment Activities						
Neighborhood Housing Services						
Starts	17	16	15	17	18	18
Neighborhoods Being Served	173	192	199	205	210	215
Cumulative Self-Reliant Neighborhoods	0	5	18	34	45	56
Apartment Improvement Program						
Starts	4	6	1	4	4	4
Neighborhoods Being Served	13	22	24	27	30	34
Major Programmatic Component Starts[3]	16	16	14	20	13	9
Neighborhood Reinvestment Operations						
Full Time Equivalent Staff[4]	226	208	197	193	206	190
Neighborhood Program Activity						
NHS Loans ($000s)	11,203	12,622	14,982	22,684	27,000	32,000
NHS Loan Sales to NHSA ($000s)	2,086	3,300	4,063	4,688	5,500	6,000
NHS Clients	19,775	37,650	48,317	60,990	75,000	80,000
Apartment Improvement Units Rehabbed	1,452	2,472	3,192	4,100	5,000	5,500
Apartment Improvement Reinvestment ($000s)	15,675	29,272	45,695	60,617	62,000	65,000

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[1] Includes the sale of furniture located at 1700 G Street to Federal Home Loan Bank Board for $400,000.

[2] This figure includes a one-time adjustment to reconcile the budget carry-forward to the unrestricted fund balance of the audited FY 1984 financial statements.

[3] Major programmatic components include Problem Properties Strategies, Insurance Full Partnership, Housing Development Strategies, Energy Conservation, and Neighborhood Commercial Revitalization Strategies.

[4] This figure represents the average positions filled during the year.

FISCAL 1986 IMPACT OF GRAMM-RUDMAN

Mr. **Boland**. Thank you very much.

The number of the FTEs are targetted at 190 in fiscal year 1987. That is a reduction of 16 from your 1986 estimate. In your statement and in the opening preface in the justification, you indicate that the request for 1987 of $15,285,000 is a reduction of 13.5 percent from fiscal year 1986.

Of course, the Neighborhood Reinvestment Corporation has not been impacted by Gramm-Rudman, has it?

Mr. **Whiteside**. Not in the first year.

Mr. **Boland**. You were lucky, weren't you?

Mr. **Whiteside**. We were.

Mr. **Boland**. The reason for that is because you receive your money on October 1st in one lump sum, as I understand it.

Mr. **Whiteside**. Correct.

Mr. **Boland**. There were no funds to sequester in February when the order took place, so that is one of the reasons why you get out from under it. How do you get the funding in one lump sum? Is that an allocation OMB has given you all of the time?

Mr. **Whiteside**. It is because of the way the enabling legislation is drafted. We are not a department, agency or instrumentality of the United States, and the language in the enabling statute has been interpreted by the Treasury and OMB as requiring our appropriation to be paid at the beginning of the fiscal year.

FISCAL 1986 PROGRAM GOALS

Mr. **Boland**. Last year you indicated in the hearings that if we added an additional $2 million—and as you know, we actually added more than $2 million—you would enhance your program goals by certain factors. On page 424 of the hearings, the effect of that $2 million is displayed. For example, you indicate that you would increase NHS starts and expansions from 12 to 16 with the $2 million. As we see on page 35 of the justifications, you actually increased it to 18. So you did a little bit better in that area.

But in some areas you didn't do as well as you indicated last year that you would. For example, the problem property strategies which you indicated would go from three to seven actually only hit four, and the neighborhood preservation projects areas which you indicated would go from 15 to 20 was not increased and stayed at 15.

Was there any special reason for falling short of those goals?

Mr. **Whiteside**. Actually, they are still goals, because they apply to this fiscal year, and we are only half-way through. The goals were changed as a result of evidence we received from the NHS's and from our own field staff of what would be achievable. The additional NHS starts appeared to be achievable.

The problem property strategies, which require heavy amounts of local contributed, low-interest capital derived mainly from community development block grants, seem to be less achievable. I have forgotten—the NPPs, do you recall them?

Mr. **Knight**. NPP is an estimate every year. The funding level for what it would take on a given project cannot be set in advance. We look for good ideas.

It may hit 15. It may hit 20, may hit 18. Last year, as you recall in 1985, we had a goal of less than seven problem property strategies, but actually we found seven places where our grant funds would adequately leverage local funds and went ahead with seven. These are goals that we aim at internally but events as we find them in the neighborhoods dictate the final numbers.

Mr. **Whiteside**. In every case our funds are leveraged several times over by local funds and this is really the final determinant in those projects.

FISCAL 1987 NHS DEVELOPMENT GOALS

Mr. **Boland**. For fiscal year 1987, you have indicated you are incurring a 13 percent decrease according to your figures. How is it that you can still maintain a level of 18 new starts when last year you told us that a reduction to 12 starts was required?

Mr. **Whiteside**. We were going to attempt to do that by cutting back on our grants, by negotiating with the local governments and local contributors in each community for them to put up a larger amount of grant funds and for us to put up a smaller amount. We thought that with the staff we had in place we could still conduct the staff-intensive part of the activity.

As I mentioned in my opening statement, however, if CDBG funds are cut as proposed, it is going to be very hard for us to meet that goal.

LEVERAGE OF CORPORATION'S SEED GRANT

Mr. **Boland**. What is the ratio between the corporate grants and the local?

Mr. **Whiteside**. Take the revolving loan fund of Neighborhood Housing Services. We typically put $50,000 seed money into a revolving loan fund to get it started. A very recent survey showed that the average revolving loan fund for NHS across the country is now $750,000. So our grants have been leveraged through CDBG and foundation resources by 15 times, over several years.

MUTUAL HOUSING ASSOCIATION DEMONSTRATIONS

Mr. **Boland**. With respect to the Mutual Housing Association demonstration funds, the Committee provided an additional $1 million in 1986 for this programmatic area. On page 17 you indicate that those funds were used to begin a new demonstration program based on rehabilitation on New York's Lower East Side which had the very strong support of this Committee and Mr. Green.

You indicate that a third demonstration site will be selected during 1986. How much of the $1 million do you devote to the Lower East Side project?

Mr. **Whiteside**. We will be devoting the full million to the Lower East Side project.

Mr. **Boland**. What is the total cost of that mutual housing demonstration project?

Mr. **Whiteside**. It would be hard to say. It involves development costs, staffing during the first year-and-a-half of getting the project up and running. It involves the capital grant which is what this particular appropriated amount would go to. It involves technical assistance over future years. But the development cost and technical assistance would be in the low hundreds of thousands compared to the capital grant cost.

Mr. **Boland**. Does it require additional funding in fiscal year 1987 to complete the project?

Mr. **Whiteside**. No, it would not require additional funding for the technical assistance. Our ongoing staffing would be able to handle that.

Mr. **Boland**. What is the total cost estimated for the third demonstration site that you plan to select for 1986? Have you actually selected the site yet?

Mr. **Whiteside**. No, we haven't. We are looking for localities and we have a number of statements of interest in this.

Mr. **Boland**. Do you have any particular estimate for that site?

Mr. **Whiteside**. What we are looking toward is projects where, with State funds or other local funds, they can handle the capital grant elements. I might mention that these entities are designed to be ongoing producers of rehabilitated or new housing for association members, so as additional capital grant resources are discovered from a variety of sources, it will enable the associations to carry forward their work.

For instance, even with the quadrupling of the million dollars which we intend to achieve in New York City through public and private resources it will just be a start on the needs of the lower east side sub-neighborhood we are looking at. It will be a continuing process of the Mutual Housing Association looking for additional resources for its capital grant needs.

NEW YORK SITE

Mr. **Boland**. Will the entire $1 million be used in the New York site?

Mr. **Whiteside**. Yes.

Mr. **Boland**. This Committee is concerned whether you are committing NRC and the Congress to a funding curve that neither you nor the Congress might be able to support. In other words, do you have sufficient funds in your 1987 request to complete or continue the Mutual Housing fund demonstrations that you are starting in 1986?

Mr. **Whiteside**. I think, given that these are demonstrations, given that the objective is the creation of entities that have the capacity for ongoing production, the word "completion" does not really apply. I think what we are doing is putting an entity in place, allowing it to get some initial track record and leaving the future funding needs open-ended, depending on what the opportunities are.

But if this Committee were unable to continue the funding, there would be no breaching of a real or implied commitment.

Mr. **Boland**. Is there an additional funding requirement facing you now for these projects?

Mr. **Whiteside**. No. Other than the ongoing technical assistance.

POTENTIAL EFFECTS OF GRAMM-RUDMAN IN FY 1987

Mr. **Boland**. Yes. Let me ask about Gramm-Rudman for a minute. As you indicated, Gramm-Rudman could be a problem in 1987. If Gramm-Rudman survives, because of the fact that the sequestration order will take effect on October 15, you would not escape the effects of the law in 1987. You have indicated that.

Now, with that in mind, can you give us some idea for the record, or now if you would like to, on where you would take a five percent or a ten percent reduction under GRH provision and from what programmatic areas?

Mr. **Whiteside**. We will do that for the record.

[The information follows:]

Potential Effects of Gramm-Rudman in FY 1987

In submitting our justification for our FY 1987 budget, we have planned for a 15.5% reduction from all sources of funds. In planning for this reduction, we have sought to maintain as much of our highly trained staff as possible in order to retain essential technical services to existing NHSs and continue to respond to some new communities. This has meant a planned reduction in the size of grants, a decrease in NHS Insurance Industry Full Partnerships and Mutual Housing Association initiatives.

A 20-25% reduction would cause more severe dislocations. Some costs, such as rent, etc. are relatively fixed and difficult to reduce within a short time period. Therefore, a disproportionate amount of the further reduction would fall upon areas such as grants and staffing.

A further reduction of 5-10% under the Gramm-Rudman-Hollings provisions would bring about a sharp reduction in our programmatic capacity. The staffing cuts could not be handled through attrition alone and would cut into the skilled, trained staff which is the backbone of our operation. At the 10% level, we might have to reduce our staff by up to 23 FTEs. This would substantially cut into technical services and necessitate closing some offices, but the savings from the office closings would not be experienced until late in FY 1987 and in FY 1988.

As a best estimate at this time, I have updated Tables 7 and 8 from our justification to give a sense of the possible impact.

Table 7

Neighborhood Reinvestment Corporation
Comparison of Program Goals/FY85-FY87

	FY 1985	FY 1986	FY 1987	5% Dec.	10% Dec.
NEIGHBORHOOD HOUSING SERVICES					
NHS Starts & Expansions	18	18	18	16	12
Reorganizations*	4	4	3	3	1
Neighborhood Goals Achieved (Cumulative)	34	45	56	56	56
Programmatic Supplements:					
Problem Property Strategies	7	4	2	0	0
Insurance Full Partnerships	0	1	0	0	0
Owner Built Housing	7	4	3	3	3
Neighborhood Commercial Management:					
Large-Scale Starts	3	2	2	2	2
Small-Scale Strategey Dev. Grants	3	2	2	2	2
TRAINING, TECHNICAL SERVICES AND PROJECT DEVELOPMENT ACTIVITIES					
Programs - Tech. & Start-Up Services	205	210	215	215	215
Program Reviews	105	125	110	110	90
Secondary Market Capitalization ($000)	550	550	500	475	450
Training Conf. - # Participants	1,333	750	500	500	250
Training NHS Staff Mbrs. - # Participants	145	185	160	160	160
Training NHS Board Mbrs. - # Participants	225	240	200	150	150
Intern Awards	68	70	50	0	0
APARTMENT IMPROVEMENT PROGRAMS					
Starts & Expansions	4	4	4	4	4
Existing Projects - Technical Services	27	30	34	34	34
FNMA Master Commitment	$1.25M	$23.75M	$15M	$15M	$15M
RESEARCH & PILOT REPLICATION					
Neighborhood Preservation Projects	21	15	11	5	5
Mutual Housing Assn. Demonstrations:					
Starts	1	1	0	0	0
Capital Grant	0	1	0	0	0
Technical Services	2	2	2	2	2
Neighborhood Impact Case Studies	15	12	10	5	0
TOTAL FUNDING LEVEL (in thousands)	$18,306	$19,865	$16,785	$15,942	$15,099
ESTIMATED STAFF POSITIONS	193	206	190	180	167

*Anticipated Level of Activity, Not A Goal

Table 8

Neighborhood Reinvestment Corporation
Programmatic Comparisons
Fiscal Years 1986-1987 - All Sources of Funds
($000)

	FY 1986 Estimate	FY 1987 Projected	FY 1986-1987 Difference	FY 1986-1987 % Change	Projected FY 1987 If Reduced By: 5% Difference	5% % Change	10% Difference	10% % Change
NHS Development	$ 4,065	$ 3,400	$ (665)	(16.4)	$ (163)	(4.8)	$ (408)	(12.0)
Programmatic Supplements	2,620	2,100	(520)	(19.9)	(105)	(5.0)	(105)	(5.0)
Training and Development Assistance	5,845	5,585	(260)	(4.5)	(268)	(4.8)	(670)	(12.0)
TOTAL Neighborhood Housing Services	$12,530	$11,085	$(1,445)	(11.5)	$ (536)	(4.8)	$(1,183)	(11.0)
Apartment Improvement Program	980	800	(180)	(18.4)	(40)	(5.0)	(80)	(10.0)
Research and Pilot Replication	1,840*	1,000	(840)	(45.7)	(150)	(15.0)	(150)	(15.0)
General Administration	4,515	3,900	(615)	(13.6)	(117)	(3.0)	(273)	(7.0)
TOTAL All Programs	$19,865	$16,785	$(3,080)	(15.5)	$ (843)	(5.0)	$(1,686)	(10.0)

*Includes $1 million capital grant for the Mutual Housing Rehab Demonstration

EMPLOYEE C-O-L/MERIT INCREASES

Mr. BOLAND. In last year's hearings you indicated it was the policy of the Board of the Neighborhood Reinvestment Corporation to follow the Federal Government's example concerning pay raises. As you know, there was no pay raise scheduled for Federal Government employees in 1986. Are you maintaining that same posture for the employees of the Corporation?

Mr. WHITESIDE. In the sense of a cost of living increase?

Mr. BOLAND. Yes.

Mr. WHITESIDE. Yes. We are maintaining that. We have a small increment for a normal merit increase, normal promotions, but no cost of living.

Mr. BOLAND. What about 1987? The present budget includes a three percent increase for Federal employees. What about your budget for 1987? Does that assume the same increase?

Mr. WHITESIDE. That assumes a four percent cut in overall funds and an eight percent cut in positions, so the difference between the two would give us a little leeway for, again, merit increases and promotions. There would be little in there for cost of living.

Mr. BOLAND. Your budget also talks about a four percent merit increase as budgeted for 1987, but you have no cost of living adjustments that are provided. You indicate the Corporation awards merit increases only to persons who have served one year, based on performance reviews.

My question is whether or not you are substituting the merit increase concept for the cost of living increase and thereby in effect giving most of the employees a raise. In short, of your 200-plus employees, how many received a merit increase in fiscal year 1985 and 1986? Do you have any idea?

Mr. WHITESIDE. Most of them. But many of the merit increases were for less than a cost of living increase would have been, and they were based on merit. So what we have done is what private industry has done.

[The information follows:]

EMPLOYEE COST-OF-LIVING/MERIT INCREASES

As previously noted, the Corporation does not provide cost-of-living or "comparability" increases, but does provide for merit increases based on individual evaluations of employee performance. In fiscal year 1985, 181 of 200 staff members received a merit increase. The average increase in the salaries of those individuals who received a merit adjustment amounted to 6.5%, affecting the total of base salaries by 6% annualized. Because the merit adjustments are implemented in January, the net effective increase in fiscal 1985 was 4.5%.

It is our understanding that fiscal 1985 salary adjustments for federal employees included a January 1 cost-of-living of 3.5%, and within grade adjustments of 3 to 4%, as estimated by OPM and SES, respectively.

No merit increases have yet been implemented in this fiscal year. We are, however, completing the performance evaluation process that will culminate in merit increases, for which we have budgeted 5.25% of January 1, 1986 base salaries.

ASSISTED HOUSING PROGRAM THRUSTS

Mr. BOLAND. As of now there are basically the following assisted housing program thrusts: new public housing; public housing modernization; Section 202/Section 8 housing for the elderly; Section 8 existing; Section 8 moderate rehabilitation; Section 8 vouchers;

rental development grants—HODAG; and rental rehabilitation grants.

You know the Administration supports only one program on that list and that is the voucher program. Our problem with the voucher program is that with the available rental units at an all-time low, there just isn't sufficient new housing stock for low income families that are coming into the market. The Administration disagrees with that assumption.

Now, what about your thoughts on this issue, given the fact that you are out there in these communities and probably know the impact that a relatively small vacancy rate has in whether or not the voucher program can operate in that kind of an environment? What is your opinion on this?

Mr. **Whiteside.** I have to concur with the judgment you expressed. I think we are dealing with a very tight market in many areas for low income rental and purchased housing. As the larger number of family units across the whole income spectrum has begun demanding housing we have found that many of the housing units that have in the past served lower income people are being taken up by higher income people.

Mr. **Boland.** Now, the Administration brags about the voucher program. As you know, the voucher program really consists of giving someone who is looking and needs housing a check so they may find their own place. In my judgment, there is no value to that particular program because you don't provide new construction and you do not provide any additional housing units. As a result, where the vacancy is very low, it is awfully difficult for those who are to participate.

They have asked for 50,000 vouchers, I think, for fiscal year 1987. It is going to be pretty difficult for a number of particularly the really low income, poor families. It will be awfully difficult for them to find housing units.

What if some $5 billion to $10 billion were provided for these assisted housing programs that I listed? What priorities would you attach to those particular housing programs with respect to the five or ten billion dollars that might be provided?

Will you do that for the record?

Mr. **Whiteside.** I would have to do it for the record.

[The information follows:]

ASSISTED HOUSING PROGRAM THRUSTS

As I have made clear in my testimony, we regard CDBG as the highest priority. Among assisted housing priorities, we would place maintenance of public housing facilities at the top, so that current very low income public housing residents are not forced into competition for the very limited supply of housing for lower income households.

Among the others, we would rank them as follows: Section 8 moderate rehab and Section 8 existing; Section 8 vouchers, UDAG and rental rehab grants; Section 202 elderly; and HODAG.

This ranking of priorities in assisted housing programs is not without bias. Rather, it reflects the degree to which these resources have enabled NHS programs to achieve specific revitalizaton goals—at a faster rate of progress than might otherwise be possible. Without intending to pass judgment on the lower-ranked and excluded assisted housing programs, which may be important resources to efforts outside the context of NHS, our direct experience would lead us to allocate $5 and $10 billion between these programs as follows:

	$5 Billion	$10 Billion
Public Housing Maintenance	$2 Billion	$4 Billion
Section 8 Moderate Rehab	750 Million	1.5 Million
Section 8 Existing	750 Million	1.5 Million
Section 8 Vouchers	500 Million	1 Million
UDAG	500 Million	1 Million
Rental Rehab	500 Million	1 Million

On a final note, the housing repair and preservation loan and grant programs administered by FmHA have been effectively utilized by rural NHSs, allowing them to stretch and target their limited revolving loan fund resources. If there were an opportunity to include these resources in our ranking, we would prioritize them on a par with Section 8 moderate rehab and Section 8 existing.

VOUCHERS

Mr. **Whiteside**. I would indicate as far as vouchers are concerned, for instance, the Mutual Housing Association that we are demonstrating provides new housing or provides rehabilitated housing but you can only go so far in squeezing the monthly rents down.

For instance, in the Baltimore Mutual Housing Association, they are charging monthly rents from about $250 to $375 a month, exclusive of utilities. That covers operating costs and very minimal debt service on the small proportion of debt. (Most of the capital is provided by capital grants.) If you wanted to serve individuals who were able to pay less than $250 a month rent, the voucher could be a very helpful tool to enable more low income households to be served.

But as you correctly noted, a voucher is not a way of increasing the housing supply.

Mr. **Boland**. With respect to public housing, the Administration has about zeroed out public housing for fiscal year 1987. The number you said they provided for was 800-some-odd units, I think, in 1986. They reduced it from 5,000 to about 800 units in 1986.

Can you really provide housing for the poor without a public housing program?

Mr. **Whiteside**. We have assumed in our work that there is a public housing resource and a need for such a resource for the very low income. In our Neighborhood Housing Services work we deal in the range from perhaps 40 percent to 120 percent of median household incomes. In the Mutual Housing Association, at least half of the occupants are below 80 percent of median income.

So in a sense we are aiming at the population which has too high an income for public housing but is not being served under present economic conditions by the private sector. The need for a resource for housing for the very poor is clear.

NHS USE OF CDBG RESOURCES

Mr. **Green** [presiding]. Could you quantify for us the extent to which you have been utilizing community development block grant funding?

Mr. **Whiteside**. Yes. We do do that for the record.

Just in very broad terms, the revolving loan funds of the NHSs amount now to over $100 million, and a very substantial part of that is community development block grant funds. Certainly the purchase, rehabilitation and sale projects dealing with vacant neighborhood properties have been funded substantially with community development block grant funds.

[The information follows:]

NHS Use of CDBG Resources

NHSs have very extensively utilized CDBG funds. These funds have largely been used for the NHS revolving loan funds and for capital improvements. A recent survey of NHS revolving loan funds indicated that the NHSs have about $110 million in their revolving loan funds, or available to them for draw-down under existing CDBG contracts. A large proportion of the $550 million in local capital improvements made in NHS neighborhoods have been financed through CDBG budgets.

There are several other uses of CDBG by NHSs that we are not readily able to quantify: in smaller cities a portion of the NHS operating budget may be drawn from CDBG funds, and similarly, CDBG funds have been important in special projects, such as rehabilitation and sale of vacant properties, city loan and grant programs, energy conservation efforts and commercial revitalization efforts to name a few. These projects have allowed NHS partnerships to address specific blighting impacts on their neighborhoods. The ability to obtain low-cost capital for neighborhood projects is invaluable to the NHSs' overall success in achieving substantial neighborhood self-reliance.

IMPLICATIONS OF CDBG DEFERRALS AND REDUCTIONS

Mr. **Green**. Would you also spell out what the effects would be of the deferrals and reductions that are recommended for fiscal year 1986 and fiscal year 1987?

Mr. **Whiteside**. We would be pleased to. As I mentioned earlier, that also has an impact on our projected goals since in the quick turn around time before the galleys had to be produced, we didn't become aware of what was proposed to happen to HUD's resources.

[The information follows:]

Implications of CDBG Deferrals and Reductions

The Administration's fiscal 1987 budget recommends $2.1 billion for the Community Development Block Grant program, which is a 34% reduction from the FY 1985 funding level. The impact of these reductions on our work would be a significant reduction in low-cost capital available to help lower income neighborhoods deal with their problems. This would make many of NHSs' intervention actions impossible, or severely limit their scale.

USE OF UDAG RESOURCES

Mr. **Green**. Have you been using UDAG funding at all?

Mr. **Whiteside**. A number of NHSs and the Mutual Housing Association of Baltimore have been fortunate enough to be able to use UDAGs but it has not been a large source of capital for NHSs.

Mr. **Green**. Will the proposed abolition of that program have any impact?

Mr. **Whiteside**. It just reduces those opportunities. It slows the revitalization process by that much.

STATUS OF BALTIMORE AND LOWER EAST SIDE MHA DEMONSTRATIONS

Mr. **Green**. Could you also give us the status of the Baltimore mutual housing and the Lower East Side mutual housing for the record?

Mr. WHITESIDE. We definitely will. Yes.

[The information follows:]

STATUS OF BALTIMORE AND LOWER EAST SIDE MUTUAL HOUSING ASSOCIATION DEMONSTRATIONS

The National Mutual Housing Association demonstration was undertaken with the encouragement of Congress through language in the 1980 Housing and Community Development Act. Reports on progress in the demonstration were submitted to the Congress on September 30, 1981 and March 1985. A further report is planned for the Spring of 1989.

The first demonstration site was Baltimore, Maryland, where a Mutual Housing Association was formed and construction of a complex of townhouses was undertaken at The Alameda and Cold Spring Lane in the Govans neighborhood. At this date, 33 units have been constructed and occupied, and an additional 16 units are scheduled to begin construction in the Spring of 1986.

Results to date in Baltimore in the demonstration of this housing concept are very promising:

A publicly-accountable, nonprofit corporation has been formed which is a partnership of residents, households waiting to become residents, representatives of the surrounding neighborhood, and representatives of local government and of the business community.

The Association owns the housing it produces, but the residents participate in the financing through a refundable capital fee, participate in the Association's management through representation on its board of directors and committees, and display a phychological "pride of ownership" unprecedented in publicly assisted housing.

The Association is successfully developing housing, utilizing capital grants and low interest loans from public sources, as well as private contributions to keep monthly payments by residents to between $265 and $380 per month (exclusive of utilities), and, with considerable input from residents, is successfully managing the properties.

In the Lower East Side demonstration, work is proceeding to obtain a match of approximately $3 million in local private and public contributions for the $1 million in the Corporation's FY 1986 appropriation committed to a capital grant for this demonstration.

The demonstration in the Lower East Side will serve a more deteriorated, lower-income neighborhood characterized by multi-family structures, and will undertake the rehabilitation of vacant properties. This demonstration is a significant effort to preserve decent housing, affordable to lower-income neighborhood residents, in a neighborhood subject to the twin demons of severe blight and runaway rent levels on privately rehabilitated dwellings. The performance of the Mutual Housing Association model in a neighborhood with problems of this kind will be extremely significant in evaluating its potential for the future.

Work is currently going forward in the neighborhood to familiarize the community with the Mutual Housing Association's potential and to enlist participants in a series of workshops which, given strong community support, will lead to organization of a Lower East Side Mutual Housing Association as a state-chartered nonprofit corporation. At the same time discussions are underway with the City and the Community Board regarding identification of vacant, city-owned buildings which could be acquired by the Association for rehabilitation.

FISCAL 1987 OMB BUDGET SUBMISSION

Mr. STOKES. Mr. Whiteside, does your budget submission go to OMB?

Mr. WHITESIDE. Yes, it does.

Mr. STOKES. What was your original budget submission for fiscal year 1987?

Mr. WHITESIDE. At the enhanced level, it was $26.5 million.

Mr. STOKES. You said the enhanced level, meaning what?

Mr. WHITESIDE. We provided three levels, an enhanced, an intermediate and a maintenance of effort level.

Mr. STOKES. I see. Do you also enter into the negotiation process with them as agencies do?

Mr. **Whiteside**. Yes. For instance, we got an original pass back which we were able to appeal and get a further review of. At our size we are not encouraged to press the appeal process to the limit.

EFFECT OF REDUCTIONS ON NEIGHBORHOOD SELF-RELIANCE

Mr. **Stokes**. You have plenty of company in that regard, I think. In previous years, the Neighborhood Reinvestment Corporation has provided valuable assistance to Neighborhood Housing Services to strengthen the skills of NHS and the Apartment Improvement Program partnership and staff, as well as provide tools to Neighborhood Housing Service neighborhoods in an effort to advance neighborhood self-reliance.

Will the reduced funding request for fiscal year 1987 significantly affect your ability to continue providing the level of support that has been the case in past years?

Mr. **Whiteside**. It will affect our ability and, as I mentioned, in combination with a significant reduction in CDBG, it will affect our ability more than we had projected.

Mr. **Stokes**. I think generally most neighborhoods working on this type of plan are able to achieve, I guess, self-reliance after about six or seven years. How will your reduced funding affect this time frame?

Mr. **Whiteside**. It will have a long term effect on that because the NHSs that are at various stages in their development—they have been in a neighborhood one, two, three, five, six, whatever number of years at whatever their stage may be.

For instance, if an NHS neighborhood has focused its effort on the single family housing in the neighborhood and there are a number of additional apartment buildings that require treatment before you can really say the neighborhood is up to a healthy quality, and they have applied for us to help them develop an Apartment Improvement Program to supplement the NHS's efforts, and we were unable to supply it because of limited resources, that would slow down their achieving self-reliance.

PROGRAMMATIC SUPPLEMENTS

Mr. **Stokes**. Can you describe for us the purpose and operation of some of the Neighborhood Housing Services new program components such as Neighborhood Commercial Management, Problem Property Strategies, and Apartment Improvement Programs?

Mr. **Whiteside**. The Apartment Improvement Program, to start with the last you mentioned, is designed to enable privately owned, usually conventionally financed, apartment buildings that are a problem in the neighborhood to be brought back into a condition of good repair and good management which will provide a decent quality of life for the tenants and a return for the property owner.

We put together a partnership of building owners, tenants, local government, financial institutions and community representatives in the neighborhood to direct such a program. We have provided a small grant to help them get it staffed and we provide them with training.

We provide them with a computer model to use in their workouts, to project the impact of various improvements on the cash flow of the building and the long term cost and income relationships. Then we step back and it becomes a project run by that local community, normally in relationship to an NHS.

So our activity in the beginning might involve a grant of perhaps $20,000 for the provision of a personal computer to run the Real Estate Investment Analysis Model, the use of our software and a number of organizational development workshops. The total cost to us of such an effort might be in the range of $100,000, but then once it is going in the neighborhood it continues moving apartment-by-apartment through that neighborhood using conventional financing and providing the various kinds of workout help the buildings need.

That is one of them. The Neighborhood Commercial Management Program is a program that probably the majority of the NHSs need. It is a more complex, more sophisticated program.

We have been able to help relatively few in this. I think three or four a year. The idea is to organize the merchants, to get them working in concert with the residents of the surrounding neighborhood; to help them upgrade the physical quality of the commercial area; for them to upgrade the quality of goods that are sold there; for them to find the loan resources for inventories and improvements; to help them coordinate merchandising; and to provide a business district manager who provides somewhat the same function for the business district that a mall manager provides for a mall; in places where you are concerned about every vacancy in the neighborhood, where you are concerned about the quality of that whole organization and system that makes up the commercial area.

This has been a very valuable and useful contribution to the less than a dozen NHSs where we have been able to make this service available but we are limited in our staffing and funding capacity to expand it broadly.

Mr. STOKES. Are these new initiatives that you will be able to fund at the budget level that you submitted to us?

Mr. WHITESIDE. We will be able to fund them at that very small rate. Do you have the numbers at hand? Two commercial management starts on this large scale I have been mentioning and small scale strategy assistance to two others.

Apartment improvement programs, four starts in additional communities; problem property strategies, two; three owner built housing projects. So we have really limited ourselves in this area and maintained our levels of resources going into general technical assistance for the NHSs.

FISCAL 1986 PROGRAM GOALS

Mr. STOKES. Now, your budget documents indicate that the fiscal year 1986 goals for the Corporation include completing work on an additional 16 NHS development sites, and bringing NHS programs to total approximately 137 cities serving 210 neighborhoods. In addition, 11 neighborhoods and/or sub-neighborhoods were to substantially achieve their goals, bringing to 45 the number of self-reliant neighborhoods.

Your budget document also indicates you plan to initiate the development of new NHSs in 18 additional neighborhoods in fiscal year 1986. Now, do you still anticipate meeting these time tables?

Mr. Whiteside. Generally, yes.

Mr. Stokes. May I be parochial and ask you what is the status of your program operations in a place called Cleveland, Ohio?

Mr. Whiteside. We are working closely with the NHS program in Cleveland. We were able, in a program review we conducted a few months ago, to give them some ideas on strengthening the program. We are in discussion with them on providing an apartment improvement program there.

As a result of the assistance and the objective outside view we have provided, they are going through an earnest review of their structure and the way they operate at this point. But the Cleveland NHS has been a very productive program and we think it is going to be an even more productive one.

Mr. Stokes. Very good. Thank you.

Mrs. Boggs?

NEIGHBORHOOD SELF-RELIANCE

Mrs. Boggs. Thank you, Mr. Stokes.

I think it is wonderful that you expect to see 56 self-reliant neighborhoods by the end of 1987. What assures the continued self-reliance of these neighborhoods?

Mr. Whiteside. That is something we think a lot about. The approach we have taken to it is to work with a number of the early neighborhoods to become self-reliant to determine how best to encourage the residents to stay active in monitoring the vulnerabilities of their neighborhood. In the way eternal vigilance is the price of liberty, so it is also the price of having a strong neighborhood. So a number of NHSs, as they are moving close to moving their full effort from one neighborhood to another, will put particular attention on getting the residents strengthened in a neighborhood organization format so they are able to take on that monitoring, and they can energize the residents to take care of their own neighborhood.

I think there would be a risk if you precipitously left the neighborhood after working on it for a number of years and didn't try to leave some mechanism in place to keep it in good quality and we are trying to encourage that.

DETERRENTS TO DISPLACEMENT AND SPECULATION

Mrs. Boggs. Another thing that has enchanted me about your success is that your program has been able to largely avoid speculative investment and displacement of the original residents, a problem so often encountered in other urban revitalization efforts. Can you give me some notion of why that is true?

Mr. Whiteside. Yes. It is partly the kind of neighborhoods NHSs are in. I have to be honest. We are dealing with blue collar, lower income neighborhoods for the most part. They are not for the most part architectural gems that have been let decline. So they are generally not subject to the heat of gentrification that so many neighborhoods are.

On the other hand, it is important that residents be kept informed of the value of their property so they are not subject to speculators buying it from them for a fraction of the true value. It is important to monitor the strengths of the real estate market, make sure vacancies are kept filled, make sure that you don't create an environment for a speculative boom in the neighborhood that would force out present low income minority renters, replacing them with upwardly mobile people from a different population group altogether.

This amounts to managing the neighborhood. An NHS does this with the help of scores or hundreds of volunteers.

INSURANCE INDUSTRY SUPPORT OF NHS SECONDARY MARKET

Mrs. **Boggs**. Given the current problem period for insurance companies, I am pleased that the Neighborhood Housing Services of America has been able to secure $22.5 million in social investment commitments to support the secondary market for NHS revolving loan funds.

What is the future outlook for continued support from the insurance companies now supporting NHSA as well as for new sources of insurance support?

Mr. **Whiteside**. We think it is good. The reason it is good, I think, is the quality of the process that is backing up the securities that the insurance companies buy. What they are buying is a security backed by NHS loans yielding an average of six percent and with a maturity of an average of 12 years, loans made to individuals who were unbankable by definition.

The way it functions is that Neighborhood Housing Services of America buys a package of loans from a NHS making them liquid again so they can continue their lending in the neighborhood, but they buy them with recourse and they will only buy up to half of the NHS portfolio.

Buying the loans with recourse means that if the loan becomes delinquent, the NHS has to buy it back or substitute a like loan. This means that Neighborhood Housing Services of America has suffered no losses as a result of a loan going bad.

NHSs have suffered some losses but there is kind of a barrier protecting the insurance companies from losses in providing a social investment, and they are finding it has become a very secure investment. They are giving up some yield, but they are not taking large losses. Many other social investments have resulted in severe losses, and I think for this reason the NHS secondary market is looked upon with considerable favor.

NEW HOMES ON INNER-CITY TRACTS

Mrs. **Boggs**. I would be interested in learning more about the project in which two NHSs will actually construct tracts of new homes in adjacent neighborhoods.

How is that going to work?

Mr. **Whiteside**. We are interested in this, too. This is the process that achieved a great deal of interest in Brooklyn where it was given the name of a Nehemiah project. It is a concept of building on cleared inner-city land. We believe that our owner-built housing staff has the technical capacity to start and train NHSs in this function, and that there are a number of NHSs that have the setting as far as the physical space and the ability to produce such a tract.

The harder part is finding the grants and write-downs to bring these houses in at a price that a moderate income household can pay. So we will survey the NHSs that are interested in working with us on such a project, to determine if the city and the State and a group of local churches and local foundations will pool their resources to bring costs down from $50,000 or $60,000, which it would normally cost if you were producing these units privately, to perhaps half of that, enabling people at the lower end of the income scale to buy the home.

NHS LEADERSHIP CONFERENCE

Mrs. **Boggs**. What sort of benefits would you have hoped to glean from the biannual Leadership Conference that had to be cancelled?

Mr. **Whiteside**. This has been a very important educational tool for us. Just to cite three of these conferences, in Dallas, about six or seven years ago we had a conference at which the idea was raised that a NHS would not go out of business when it finished the revitalization of its neighborhood but that it could become an ongoing resource in its community for the revitalization of further neighborhoods.

This was a startling thought to the NHSs and their supporters who were participating in that conference. It took the educational work at that conference, and follow-up work in local settings for a couple of years, before the NHS movement made that turn.

Then three years ago at a leadership conference in Milwaukee, we introduced the concept on a broad scale that neighborhoods could achieve substantial self-reliance and the NHS, in addition to expanding to other neighborhoods, could literally withdraw its resources from a NHS neighborhood that had achieved this self-reliant standard.

This was at first difficult to accept on the part of many of the resident leaders from neighborhoods nearing self-reliance, because having the NHS in the neighborhood and being part of it meant a great deal to them. But it was a very well-received idea on the part of city governments and the business people who fund the programs because they saw this as enabling the NHS to move at a greater speed through additional neighborhoods.

It took that conference, and the one that we had just this past year in New York to complete that educational process to where a clear cut goal of self-reliance is now the rule rather than the exception in the NHSs around the country.

So these conferences have been a very important tool for us in terms of sharing major learnings with the whole network. Operating at the proposed level in fiscal year 1987 would take away a very important tool from us.

Mrs. **Boggs**. Thank you very much.

Mr. **Stokes**. Thank you very much for your appearance here. It is always a pleasure to have you.

Mr. **Whiteside**. Thank you. we appreciate your courtesy.

Mr. STOKES. Thank you.

[Question and answers for the record and the justifications follow:]

QUESTIONS SUBMITTED FOR THE RECORD

NEIGHBORHOOD REINVESTMENT CORPORATION

Fiscal year 1987
3/2/86

1. Question: Mr. Whiteside, last year I requested a study of the results achieved through the NHS revolving loan funds, and I was pleased to receive a draft copy of the study the morning of our subcommittee hearing. Could you please make a copy of the study available to the committee for the record?

   Answer: Yes, a copy is furnished herewith.

2. Question: The performance of the loan fund has been, I believe, quite remarkable given that the borrowers utilizing this fund are those who do not meet the requirements of mainstream financial institutions. What has the payment record, in summary, for the loan fund been?

   Answer: Collectively, NHS programs have made approximately 11,000 revolving loan fund loans totaling $86.9 million. Sixteen percent of these loans have been fully repaid. The following table compares the delinquency and default experience with other types of loans.

Percent Distribution of Delinquency Rates and Cumulative Default Rates by Type of Mortgage

	Past Due			
Type of Mortgage	30 Days	60 Days	90+ Days	Default Rate
All Loans	4.2	1.0	1.0	7.3
Conventional Loans[1]	2.9	0.7	0.6	4.0[3]
VA Loans[1]	4.7	1.2	1.2	8.2[3]
All FHA Loans[1]	5.5	1.3	1.3	9.4[3]
NHS Loans[2]	7.1	3.6	7.7	6.7[4]

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[1] National Delinquency Survey: May 31, 1985.

[2] Reference period February-April 1985.

[3] National Delinquency Survey (Historical Series), Mortgage Bankers Association of America, December 1985.

[4] Includes 346 loans awaiting legal action. If these loans default, the rate would increase to 6.7 from the current 3.6 percent.

As an indicator of the income level of NHS revolving loan fund borrowers, the median family income of borrowers on the loans Neighborhood Housing Services of America has purchased in the secondary market is $12,560. The national median family income in 1984 was $26,430. NHSs' success in this lending is directly attributable to their built-in capacity to tailor loan terms and rates according to each borrower's ability to pay; to provide ongoing financial counseling; and to recast loans if necessitated by changes in the borrower's income.

3. Question: How adequate is the secondary market to keep the loan fund liquid in the present climate?

Answer: The current liquid funds available to NHSs are approximately $33 million, with the balance of the loan funds lent out (A Report on the NHS Revolving Loan Fund, The Neighborhood Reinvestment Corporation, February 1986, pp. 7-9). The rate of purchase of NHS loans by the Neighborhood Housing Services of America (NHSA) secondary market during FY 1986 is projected at about $5.5 million, expanding that liquidity pool by 17%. This is sufficient to meet essential needs of the NHS network for liquidity; but it does not significantly leverage the volume of NHS loan activity. To do this would require additional capital contributions to provide NHSA with a base for the varying amounts of over-collateralization and guarantees required by social investors, and funds to subsidize the spread between NHS loan yields and the minimum yields required by social investors.

Private fundraising for this purpose has proven very difficult. The reason for the fundraising difficulty has seemed to be that the immediate funding objective is seen as meeting a technical financial need, and satisfaction of human needs, which is basic to philanthropic appeals, appears remote to the contributor. The other difficulty has been that contributors have earmarked their support for particular geographic areas, creating the potential for "have not" areas which cannot be served by the secondary market. Such capital contributions are also currently beyond Neighborhood Reinvestment's budgetary capacity.

4. Question: You have assisted the NHS network in building loan funds to about $100 million, and with leverage of about $22.5 million in insurance company social investments. Could you outline for the subcommittee what use you could make of the $600 million in Section 312 loan funds that the Department of Housing and Urban Development is trying to shed?

Answer: If title to the corpus of the Section 312 loan fund were to be transferred to the Neighborhood Reinvestment Corporation, it would provide the opportunity for substantial leveraging.

a. A portion of net payback receipts could be dedicated to capitalizing Neighborhood Housing Services of America's purchase of discounted loans from local governments, providing liquidity for further lending by local governments in lower income neighborhoods.

b. Further capitalization of the NHSA secondary market for NHS loans could be leveraged about four-to-one through sales of securities to social investors for additional investment in NHS loans.

c. Challenge loans and grants could be leveraged through neighborhood initiative funding schemes. They could, over the years, attract hundreds of millions of dollars in local public and private loans and grants to fund new construction and rehabilitation projects in lower income neighborhoods.

d. Low-interest loans to NHSs and other entities, designed to foster neighborhood revitalization, could be efficiently "retailed" locally, into individually tailored loans to neighborhood property owners.

If the Neighborhood Reinvestment Corporation, which is not a department, agency or instrumentality of the United States, were given this responsibility, it is likely that the Corporation would not encounter the inflexibilities which HUD has had to contend with in administering a portfolio of direct debts to the federal government.

5. Question: I am intrigued by the 35-to-1 ratio you cited in your testimony referring to reinvestment in NHS neighborhoods and federally-appropriated funds spent directly by the Neighborhood Reinvestment Corporatio And, I believe the Congress should look at ways to generate this kind o. productivity in other present governmental functions.

I have been distressed, for example, by recent press reports here in Washington regarding the terrible social toll taken on some of the District of Columbia's poor neighborhoods by the generation-to-generation cycle of teenage pregnancies -- where in one family, grandmother, mother and daughter were all teenagers at the time of pregnancy. Does your work provide you any clues as to how our society might break into this cycle and save the next generation?

Answer: We would approach such a situation by identifying specific, small projects which could make a positive impact, then achieve scale by replicating the projects in scores of appropriate neighborhoods. In point of fact, we were affected by the same series of articles, and another series which was published by the Chicago Tribune, and we are currently examining strategies which could be offered to neighborhood leaders in NHS neighborhoods for implementation by local churches, community groups, etc.

One of the kinds of projects we are reviewing might include the following elements:

- a network of small (2-6 children) day care facilities in a neighborhood utilizing the skills of mothers with stable families (and incidentally providing employment for a number of neighborhood mothers);
- nuturing care for the children of teenage mothers in these day care facilities;
- coaching by volunteers in mothering skills for the teenage mothers;
- tutoring by volunteers in meeting educational needs of the teenage mothers; or
- mentoring and coaching by volunteers in skills and attitudes which would foster the teenage mothers' employability.

On a demonstration basis, there is a chance that funding for such projects could be obtained from foundations in many communities.

6. Question: You have testified to having brought one percent of the nation's population to a point where they can begin to have a stake in American values; and have accomplished this for something like $125 million. If we assume that another 10% of our population lives in similar conditions, what would it cost to offer them a piece of the American Dream? Over what period of time?

   Answer: It has taken us 15 years to reach this population, starting with an annual budget of under $250,000 and developing our techniques as we went along. Given how much higher we are on the learning curve today, it would certainly not take ten times as long. But it would be likely to cost something more than ten times as much.

   A guesstimate, allowing for a deliberate phasing up of activity levels, would be something like $2 billion in 1986 dollars, expended over a 20-year period.

   A large obstacle standing in the way of such an achievement would be the limited amount of low-cost capital in view in the near future. A resource such as the redirection of the 312 loan fund posited in an earlier question would add reality to such a scenario.

7. Question: We have read about a succession of large apartment buildings in the Washington area, which have housed low and moderate income families for years, and which are now being acquired and upgraded for higher income tenants, scattering the former occupants to search for whatever housing they can find. Do you see this pattern in many other metropolitan centers across the nation, and what would it take to preserve such buildings for low and moderate income families? How realistic would it be to believe that this pattern could be turned around? Has it been stopped or reversed in any city you know of?

   Answer: Yes, we have seen this pattern emerging in a number of cities, and we anticipate that it is just the beginning. Hundred of millions of dollars are being raised to purchase currently subsidized multi-family buildings for conversion to rental and ownership units for higher income households. The phenomenon will grow in a few years when early subsidized programs' mortgages -- and restrictions on the income levels which can be served -- expire.

   Intervention in this process would require both substantial financial resources and sophisticated organizations dedicated to acquiring key buildings before their market values have escalated unreasaonably. If low-cost capital resources were available, we believe the Mutual Housing Association holds promise as a practical mechanism for this purpose. It serves the needs of low income families and the surrounding neighborhoods, makes efficient use of public and private subsidies, and is publicly accountable.

   While it would not be realistic to believe the pattern could be totally turned around in "hot" real estate markets or particularly "hot" locations, it would be a valid public policy option to preserve as many low and moderate income housing opportunities as possible, reducing the most devastating impact, and getting out ahead of a coming public policy crisis.

We are not aware of any city where the pattern has been reversed; however, the phenomenon has only surfaced recently, and we are not aware of any serious effort having been mounted to address it.

8. Question: In my own district the poor are scattered over a wide geographical area, clustered in isolated small towns and rural communities. What do you see as the best approach to help these communities achieve the type of self-reliance that you have testified has been achieved in the 34 NHS neighborhoods?

Answer: Our experience with rural and small city environments demonstrates that the NHS approach can be very successfully adapted to help meet the revitalization needs of these settings. The local natural strengths of a strong spirit of voluntarism, multi-faceted leadership and discreet, workable impact areas have proved to be major assets in the work of six operating rural/small city NHSs around the country.

As an example of the kind of rural environment NHS can address, we are embarking on a new rural/small cities NHS development in Dimmit County, Texas. Dimmit County is located in southwest Texas and has a population of 11,367, of which 83% live in small towns. The County population is 78% Hispanic and the median income is $10,400. In cooperation with the State, County and City governments, we are working to develop an NHS that will serve the towns of Carrizo Springs, Asherton and Big Wells. A majority of the 3,543 housing units in these towns is in substandard condition. Through small cities grants, the State of Texas has made the commitment to provide an initial $500,000 for the NHS loan fund and a combination of State, County and City funds has been committed to provide an initial $70,000 for first-year operating costs. The three small lending institutions in the County have committed to provide $30,000 to underwrite the balance of the operating budget.

The major challenge for rural and small city NHSs continues to be resource development. They all receive a majority of their operating and revolving loan funding from public sources, primarily in the form of the state-administered small cities CDBG program. It is clear that significant reductions in the Community Development Block Grant program would adversely impact the existing and any new rural/small cities NHS efforts. The private sector presence in these areas is sparce and private fundraising prospects are minimal.

NEIGHBORHOOD REINVESTMENT CORPORATION

BUDGET JUSTIFICATION - FISCAL YEAR 1987

February 4, 1986

NEIGHBORHOOD REINVESTMENT CORPORATION

BUDGET JUSTIFICATION - FY87

TABLE OF CONTENTS

Page

I. PREFACE 3

II. INTRODUCTION 4

III. FY 1987 FUNDING REQUEST

- A. FY 1986 Accomplishments 15
- B. Budget Request for Fiscal Year 1987 18
- C. Budget Schedules - FY 1985-1987 19

IV. ATTACHMENTS

- A. Public Law
- B. Neighborhood Housing Services
  - 1. Organized NHS Programs and Components 38
  - 2. The Neighborhood Housing Services Model 42
  - 3. Developmental Process 45
  - 4. Training, Technical Services and Project Development Assistance 47
  - 5. Median Income Data 52
- C. Pilot Replication of Programmatic Components Product Design
  - 1. Problem Properties Strategies 55
  - 2. Housing Development Strategies - Owner Built 58
  - 3. Neighborhood Commercial Revitalization Strategies 60
  - 4. Insurance Full Partnership 63
- D. Neighborhood Housing Services of America, Inc. 66
- E. Neighborhood Preservation Projects 71
- F. Apartment Improvement Program 75
- G. Mutual Housing Association Demonstration 78
- H. Organization Charts / Job Classifications 79

PREFACE

The following pages present a justification for an appropriation of $15,285,000 for fiscal year 1987. This is a reduction of 13.5% in appropriated funds from FY 1986.

A projected reduction in other sources of funding reduces total funds available for Neighborhood Reinvestment's FY 1987 operations to 84.5% of projected FY 1986 expenditures.

INTRODUCTION

General

The Neighborhood Reinvestment Corporation was created in 1978 by the Neighborhood Reinvestment Corporation Act, 42 U.S.C. Sec.8101(Supp.1981), as amended by the Act of Oct. 15, 1982, Pub L. No. 97-320, Sec.710,96 Stat.1544, (see Attachment A) to continue and expand the work of the Urban Reinvestment Task Force, which was a joint effort of five Federal financial supervisory agencies and the Department of Housing and Urban Development to promote reinvestment in neighborhoods. Section 606(a) of that law, as amended, states that:

(1) The corporation shall continue the work of the Urban Reinvestment Task Force in establishing neighborhood housing services programs in neighborhoods throughout the United States, monitoring their progress, and providing them with grants and technical services ...

(2) The corporation shall continue the work of the Urban Reinvestment Task Force in identifying, monitoring, evaluating, and providing grants and technical assistance to selected neighborhood preservation projects which show promise as mechanisms for reversing neighborhood decline and improving the quality of neighborhood life.

(3) The corporation shall experimentally replicate neighborhood preservation projects which have demonstrated success, and, after creating reliable developmental processes, bring the new programs to neighborhoods throughout the United States which in the judgment of the corporation can benefit therefrom, by providing assistance in organizing programs, providing grants in partial support of program costs, and providing technical assistance to ongoing programs.

(4) The corporation shall continue the work of the Urban Reinvestment Task Force in supporting Neighborhood Housing Services of America, a nonprofit corporation established to provide services to local neighborhood housing services programs, with support which may include technical assistance and grants to expand its national loan purchase pool and may contract with it for services which it can perform more efficiently or effectively than the corporation.

The Corporation's board of directors is comprised of:

Edwin J. Gray
Chairman
Federal Home Loan Bank Board

Samuel R. Pierce, Jr.
Secretary
U.S. Department of Housing and Urban Development

Emmett J. Rice
Member, Board of Governors
Federal Reserve System

L. William Seidman
Chairman
Federal Deposit Insurance Corporation

Robert L. Clarke
Comptroller of the Currency

Roger W. Jepsen
Chairman
National Credit Union Administration

PROBLEM BEING ADDRESSED

DISINVESTMENT IN DECLINING NEIGHBORHOODS

Neighborhood Reinvestment Corporation's mission is to reverse disinvestment and deterioration in older neighborhoods for the benefit of current residents. The characteristics of a neighborhood suffering disinvestment and deterioration include under-maintenance of structures, vacant and abandoned buildings, demolition of structures, lack of viability of neighborhood commercial areas, limited public services and under-maintenance of the public infrastructure, inadequate access to insurance and mortgages, declining or stagnant market values, an ill-functioning real estate market and a negative neighborhood image.

Often accompanying these conditions are problems stemming from a deterioration of the social fabric of the neighborhood. These problems include, in varying degrees, reduced homeownership, increased transiency and greater incidence of crime.

NHS IMPROVES DECLINING NEIGHBORHOODS

Neighborhoods are affected by negative conditions in varying degrees. With sufficient resources, Neighborhood Housing Service (NHS) Programs are successful in revitalizing neighborhoods in which median household incomes are as low as $8,391, using appropriate reinvestment strategies combining a range of resources and techniques. Neighborhood Housing Services (NHS) programs operate in neighborhoods with defined boundaries characterized by: (a) a housing stock showing evidence of deterioration and lack of maintenance; (b) an inadequate degree of mortgage and home improvement activity; (c) a substantial degree of homeownership; and (d) an income mix in the neighborhood as low as resources will permit (very low family incomes and high repair costs will require raising additional resources for revolving loan funds and staffing). Multiple neighborhoods are encouraged where resources can be raised to adequately serve each neighborhood.

SEVERAL HUNDRED NEIGHBORHOODS ARE AT CRITICAL POINTS

Several hundred neighborhoods throughout the nation are estimated to be at pivotal points where intervention by a local partnership equipped with NHS tools can halt decline and spark revitalization.

THE NHS PARTNERSHIP UNITES THE PUBLIC AND PRIVATE SECTORS
Central to the problem of disinvestment is a lack of confidence in the neighborhood by the residents themselves, the private sector, and governmental bodies, thus making it difficult for any one sector to fully address the problem. Acting as individuals, low to moderate income residents often lack the resources and expertise to halt neighborhood decline. Few governmental approaches have been able to comprehensively marshall the required public, private, and citizen resources. The private sector, particularly financial institutions, cannot affect the underlying conditions simply by changing lending policies or insurance underwriting standards. A comprehensive, coordinated strategy which can simultaneously rekindle the confidence of all significant actors is required to successfully address the problems of disinvestment in older neighborhoods.

RATIONALE FOR FEDERAL ROLE

HOUSING AND COMMUNITY DEVELOPMENT ACT OF 1974
In the Housing and Community Development Act of 1974, Congress declared that: (1) there is "inadequate public and private investment and reinvestment in housing and other physical facilities and related public and social services, resulting in the growth and persistence of urban slums and blight and the marked deterioration of the quality of the urban environment"; and (2) that "the future welfare of the nation and the well-being of its citizens depend on the establishment and maintenance of viable urban communities as social, economic and political entities and requires systematic and sustained action by Federal, state and local governments to eliminate blight, to conserve and renew older urban areas, to improve the living environment of low and moderate income families, and to develop new centers of population growth and economic activity; and substantial expansion and greater continuity in the scope and level of Federal assistance, together with increased private investment in support of community development activities ..."

PRESIDENT'S COMMISSION ON HOUSING
In April, 1982 the President's Commission on Housing reported that: "Continued maintenance and upgrading of housing quality are also important to the supply of housing because they help prevent losses from the inventory. Reinvestment activity which creates more units or which extends the life of existing units enhances the neighborhoods in which the units are located, creating value and providing a further economic rationale for neighborhood housing preservation."

NEIGHBORHOOD REINVESTMENT CORPORATION ACT
In the Neighborhood Reinvestment Corporation Act, Congress found that "the Neighborhood Housing Services demonstration of the Urban Reinvestment Task Force has proven its worth as a successful program to revitalize older urban neighborhoods by mobilizing public, private and community resources at the neighborhood level; and the demand for Neighborhood Housing Services programs in cities throughout the United States warrants the creation of a public corporation to institutionalize and expand the Neighborhood Housing Services programs and other programs of the present Urban Reinvestment Task Force." The act further states that "the purpose of this title is to establish a public corporation which will continue the joint efforts of the Federal financial supervisory agencies and the Department of Housing and Urban Development to promote reinvestment in older neighborhoods by local financial institutions working cooperatively with community people and local government and which will continue the nonbureaucratic approach of the Urban Reinvestment Task

Force, relying largely on local initiative for the specific design of local programs."

NATIONAL NHS WEEK
NHSs' services were recognized in Public Law 98-350, a Joint Resolution designating the week of October 7, 1984 as "National Neighborhood Housing Services Week." The President praised the NHS partnership for exemplifying "the spirit of cooperation and volunteerism that is the hallmark of American life" in an Oval Office ceremony. Across the country, governors, mayors and city councils followed suit with local celebrations. A similar resolution designating June 1-7, 1986 as "National Neighborhood Housing Service Week" has been recently introduced in the House, and will soon be introduced in the Senate.

NEIGHBORHOOD REINVESTMENT MOBILIZES LOCAL RESOURCES
Because of the local, private nature of NHS programs, Neighborhood Reinvestment's work is one of the most cost-beneficial activities sponsored by the Federal government. The Corporation has consistently stimulated local, private and public initiative, as cited by the President's Task Force on Private Sector Initiatives in the publication, Investing In America. Stimulating the interest and support of local residents, governments, corporations and charitable organizations, the NHS serves to focus the available local resources around revitalization needs.

NEIGHBORHOOD REINVESTMENT FULFILLS A NATIONAL NEED
The success of NHS programs over the years has been enhanced by the technical services, project development services and secondary market resources that Neighborhood Reinvestment provides NHSs and AIPs nationally. These services and resources provide the national undergirding which has made possible the extraordinary scope of neighborhood revitalizaton activity (NHS neighborhoods encompass 1.1% of the nation's housing stock) that has sparked over $3.5 billion in reinvestment to date. At a very small cost to the federal government, NHSs are revitalizing communities and improving and preserving affordable housing for the benefit of 2.8 million NHS neighborhood residents. NHSs on the whole operate in neighborhoods where the median family income is 72% of the city's median; moreover, the direct NHS loan client is on the lower end of this economic spectrum.

THE MISSION OF NEIGHBORHOOD REINVESTMENT

The Neighborhood Reinvestment Corporation's mission and goals are to:

1. Assist local communities to revitalize neighborhoods for the benefit of current residents, through developing local Neighborhood Housing Services programs which manage comprehensive, coordinated reinvestment strategies.

2. Develop, through educational processes, working partnerships of residents, local government officials, and financial institution and business community representatives to accomplish neighborhood revitalization.

3. Seek out additional promising strategies and techniques for reversing factors which negatively impact the quality of life in neighborhoods and which:

    (a) exert a long-term stabilizing influence on the neighborhood economic environment, and

    (b) lead to a perceived improving quality of life which will strengthen weak demand factors in the neighborhood real estate market, and improve the neighborhood's image.

4. Select the most promising strategies and techniques, and

    (a) monitor them and evaluate their effectiveness and replicability;

    (b) replicate them on a pilot basis in varying environments, working out systematic developmental (educational) processes; and

    (c) replicate them in additional communities where they are needed.

5. Provide training, technical services and project development services to local programs to ensure their continuing effectiveness, including:

    (a) information and training for local partnership members;

    (b) training and education for local program staff;

    (c) technical materials and systems for local programs; and

    (d) a secondary market for Revolving Loan Fund loans of local programs.

6. Disseminate information.

7. Provide an effectively administered organization to accomplish the Neighborhood Reinvestment Corporation's goals and objectives.

NHSs, THE MAIN VEHICLE

The main vehicle employed by Neighborhood Reinvestment for addressing the problem of disinvestment in older neighborhoods is the Neighborhood Housing Services program (see Attachment B). By the end of FY 1986, these local, non-profit corporations will be directing revitalization and reinvestment activities in 137 municipalities, in neighborhoods where 2.8 million people reside. NHS programs are created by Neighborhood Reinvestment through a sophisticated developmental process which builds a working partnership of local business leaders, government officials, and community residents (see Attachment B-3). The majority of human and financial resources utilized are derived locally, with Neighborhood Reinvestment staff providing expertise in group educational processes, organizational development, and training in reinvestment strategy and implementation techniques. In fifteen years of work in this area, the Neighborhood Reinvestment Corporation and its predecessors, the Urban Reinvestment Task Force and an office of the Federal Home Loan Bank Board, have developed NHS programs in over 245 neighborhoods, containing over 900,000 housing units, nationwide. By the end of the 1986 fiscal year, neighborhood goals will have been achieved in an estimated 45 neighborhoods, turning once declining neighborhoods into healthy, self-reliant communities.

NEIGHBORHOOD REINVESTMENT PROVIDES ESSENTIAL TRAINING AND TECHNICAL SERVICES

Neighborhood Reinvestment's function of providing neighborhood program training and furthering project development activities guarantees that these programs can remain viable and effective. Neighborhood Reinvestment's accumulated skills and knowledge provide these vital services, which ensure that the resources invested in an existing NHS continue to reap dividends until such a time that the neighborhood has reached its goal of self-reliance. Neighborhood Reinvestment also provides training workshops and educational conferences to enhance the skills of local NHS staff and partnership members. Such training includes sessions on neighborhood strategy, administrative skills, and specific technical areas related to lending and housing rehabilitation. Access to direct staff assistance ensures that a local NHS program can draw upon experienced personnel to overcome difficult problems.

A SECONDARY MARKET FOR NHS LOANS

Neighorhood Housing Services of America's secondary market provides a flow of capital into local NHS Revolving Loan Funds. These loan funds, maintained by local NHSs, provide flexible financing to primarily low-income clients who, for a variety of reasons, are unable to obtain housing loans from conventional market sources. The secondary market taps institutional investor resources to leverage capital provided primarily by the Neighborhood Reinvestment Corporation. Private sector resources are increasingly augmenting the resources of this secondary market.

STRATEGIC TOOLS TO REVITALIZE NEIGHBORHOODS

Neighborhood Reinvestment provides resources to enable NHSs to expand the scope of the basic NHS model. These supplemental tools enable NHSs to tackle the more complex issues standing in the way of realizing neighborhood goals and achieving neighborhood self-reliance. With these supplements, the NHS can address such elements as more distressed neighborhoods, lower income households, a higher proportion of renters and apartment buildings, more blighted buildings, scattered vacant lots, decaying commercial strips, lack of availability of affordable housing, and other negative conditions.

NEIGHBORHOOD REINVESTMENT IS EFFECTIVE

A broad analysis of the effectiveness of the Neighborhood Reinvestment Corporation leads to the conclusion that this is one of the most effective means of achieving neighborhood revitalization goals in declining neighborhoods.

We are sharing with NHS partnerships proven processes for completing neighborhood goals in order that additional neighborhoods may be served. In 1986, we expect a growing number of neighborhoods to reach a substantially self-reliant state. The charts on the following pages demonstrate our progress to date.

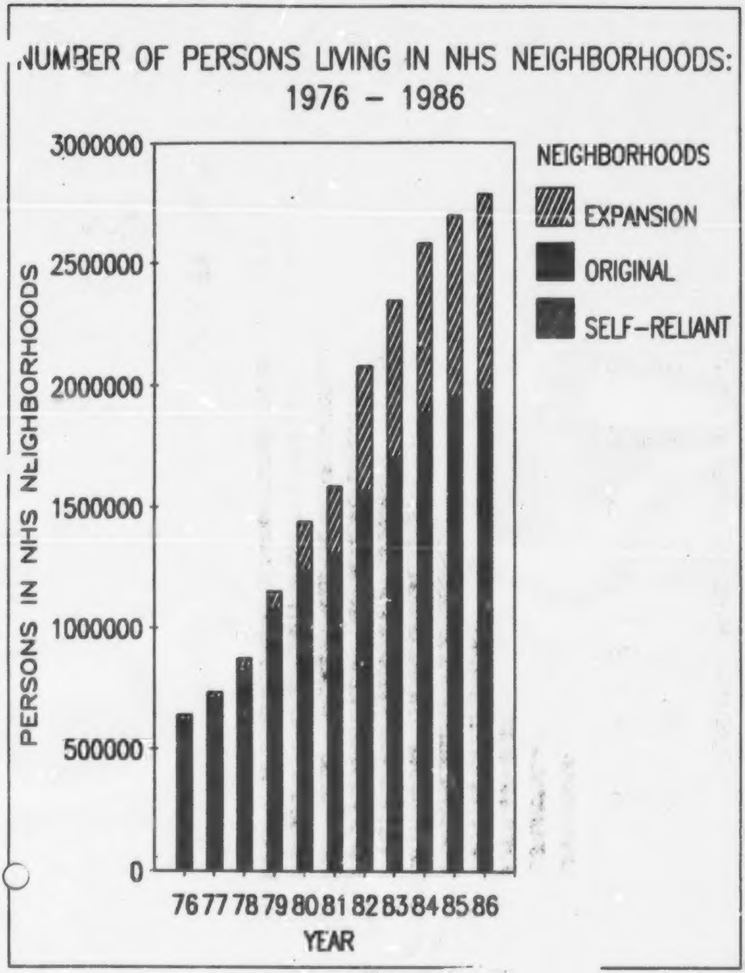
The declining ratio of our small staff to the growing number of NHSs is a measure of the effectiveness of our efforts, but also has required a substantial curtailment of services. The following table shows the growth of NHS neighborhoods, local NHS staffs, and our staff. By 1987 fiscal year end, active NHS neighborhoods will have increased by 378% from 1977 levels, while our staff, at the recommended level, will have grown by only 107%.

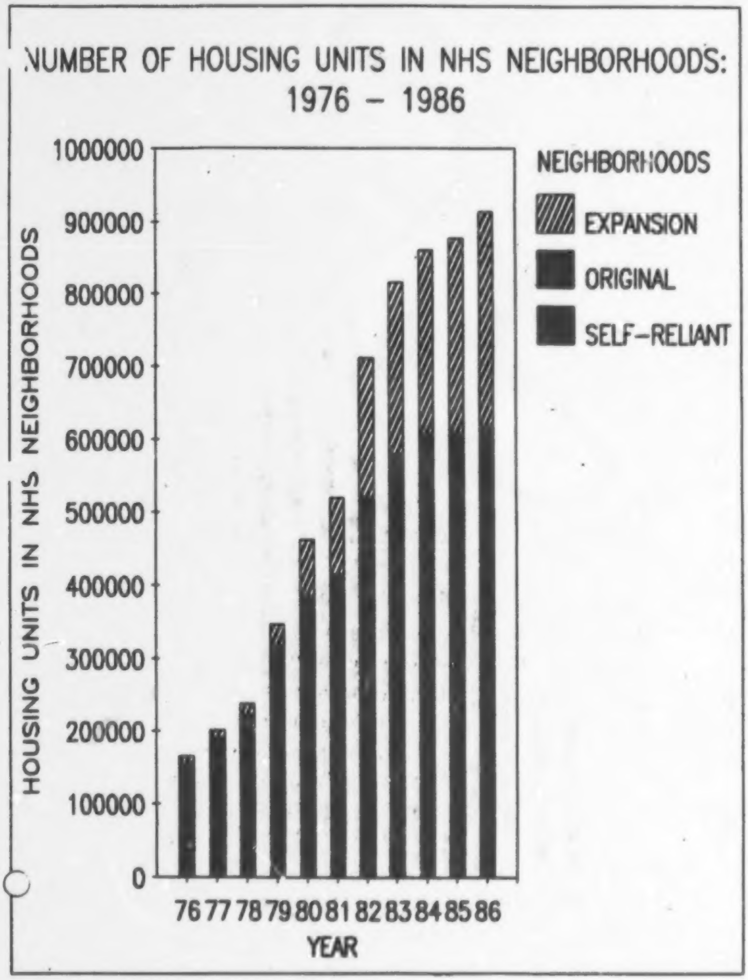
	1977	1980	1984	1986	1987
NHS Neighborhoods	45	121	199	210	215
NHS Staff Members	135	530	675	714	731
Neighborhood Reinvestment Staff	92	181	197	206	190

Finally, the cost-effectiveness of the corporation's work is illustrated by the reinvestment generated through the Neighborhood Housing Services/Apartment Improvement Program/Neighborhood Reinvestment Corporation system. The expenditure of only $126.7 million over 12 years (FY 1974-1986) will have developed and fostered the effectiveness of local, private nonprofit institutions stimulating the revitalization of over 245 neighborhoods containing over 900,000 dwelling units and housing upwards of two and three-quarter million Americans. During this time, the ratio of cumulative Federal appropriations (including prior year HUD grants) to cumulative reinvestment has been as follows.

1978	1979	1980	1981	1982	1983	1984	1985	1986[1]
1:7	1:10	1:12	1:15	1:20	1:23	1:27	1:32	1:35

[1] FY1986 estimates are extrapolated from documented activity through September 1985.


NUMBER OF PERSONS LIVING IN NHS NEIGHBORHOODS:
1976 - 1986
PERSONS IN NHS NEIGHBORHOODS
3000000
2500000
2000000
1500000
1000000
500000
0
76
77
78
79
80
81
82
83
84
85
86
YEAR
NEIGHBORHOODS
EXPANSION
ORIGINAL
SELF-RELIANT



NUMBER OF HOUSING UNITS IN NHS NEIGHBORHOODS: 1976 - 1986

ESTIMATE OF THE TOTAL REINVESTMENT OCCURRING IN NEIGHBORHOOD HOUSING SERVICES PROGRAM NEIGHBORHOODS THROUGH FISCAL YEAR 1986

Support for Local NHS Program Activity

Contributions to developmental costs (primarily by local governments)	$ 6,854,745
Contributions to NHS operating budgets (primarily by private businesses)	107,142,298
Contributions to NHS revolving loan funds (local government, Neighborhood Reinvestment Corporation, foundations, other industry)	131,959,932
Purchase of NHS Loans (by Neighborhood Housing Services of America)	23,131,727
City expenditures for code inspections	16,940,000
TOTAL	$ 286,028,702

Reinvestment in NHS Neighborhoods*

Loans made through NHS loan funds	$ 118,340,000
Loans made through financial institutions by referral from NHS	276,347,000
Loans made by city/state loan programs	58,272,000
New mortgages written in NHS neighborhoods	2,122,429,360
Other rehabilitation financed**	1,063,581,795
Capital improvements to NHS neighborhoods	553,178,929
TOTAL	$4,192,149,084

Neighborhood Reinvestment Investment

Neighborhood Reinvestment funds expended or committed to date (Urban Reinvestment Task Force demonstration grants 1974-1979 of $23,625,000; FY 1980-1986 appropriations of $103,036,000	$ 126,661,000

*Estimates are based on documented activity through September 1985; data collected by Urban Systems Research and Engineering, Inc. under contract to HUD; and through sample data collected for a research report entitled, Neighborhood Partnerships in Action, Neighborhood Reinvestment Corporation, August, 1981. The full amount of reinvestment cannot, of course, be attributed to the presence of NHS as some level of reinvestment may occur even in the absence of a program. The neighborhoods when selected, however, are deficient in reinvestment activity.

**Work financed by individuals through savings or money borrowed independently from financial institutions.

A. FY 1986 ACCOMPLISHMENTS

With an estimated total budgetary increase from FY85 of 8.5%, FY86 is expected to be a year of steady progress. We will continue to provide assistance to NHSs to strengthen the skills of NHS and Apartment Improvement partnerships and staffs, as well as continue to provide tools to NHS neighborhoods to advance the progress toward neighborhood self-reliance. These tools will include proven strategies and additional major components which are key to a neighborhood's success.

In FY 1986 we will reap the full benefits of a refined organizational structure initiated in late FY 1985. A streamlined Field Operations Division will create a stronger "production" mode for NHS and AIP efforts. A second major division, Research and Evaluation, will focus on the development of new tools for neighborhood revitalization, and through our program review efforts, evaluate their success.

Through NHSA, it is expected that insurance industry commitments to social investment in the secondary market will continue. This effort has permitted the purchase of over $18 million in NHS loans to date. In addition, the Advertising Council, unexcelled in its work of heightening public awareness of the programs it sponsors, will undertake a localized Neighborhood Housing Services Business Press Campaign and a new, multi media campaign in a score of major markets. Overall NHS image-building, (a necessary backdrop for successful fundraising efforts) was considerably aided by the President's Proclamation of October 7-13, 1984 as National NHS Week. We anticipant a similar Proclamation being announced in the spring of 1986.

Significant numbers of additional NHSs are achieving their revitalization goals in original neighborhoods and moving their focus into additional neighborhoods. The original - now substantially self-reliant neighborhoods - maintain resident based organizational structures to keep the neighborhood a healthy place. Our field staff provide assistance to operational NHSs in establishing procedures for the setting, planning and attaining of neighborhood goals. In addition, we have incorporated these expectations and impact strategies into the developmental process for new programs. Thus the NHS commitment to a particular neighborhood is not "open-ended", but is now being identified during the developmental stage to ensure that neighborhood goals can be set and attained within a finite period of years.

NHS neighborhoods that have achieved revitalization have done so, on the average, within 6-7 years. A healthy self-reliant state is achieved through targeted public services and capital improvements, comprehensive NHS financial and rehabilitation assistance, and a range of community involvement activities designed to strengthen the NHS neighborhood's identity and pride. Within this period, the NHS works to create a sustained leadership network to maintain the neighborhood's renewed pride and stability when the NHS moves on.

Programmatically, as NHSs become more experienced in the delivery of core services and grow into strong, lasting institutions, they develop ambitious strategies to meet previously insurmountable neighborhood challenges. Over 45% of the NHSs have added (or are adding) new major program components, such as Neighborhood Commercial Management, Problem Properties Strategies, Housing Development Strategies and Apartment Improvement Programs.

NHSs, by and large, are operating with efficient management systems. This management capacity owes a great deal to our program review activities and the focus on management practices in both our NHS training programs and day-to-day field services work. Because of the clear benefits NHSs have attributed to program reviews, last year we increased the program review staff and expect a related increase in the number of program reviews performed. The review process is designed to assist the NHSs in evaluating the impact they have had on the neighborhood, the strength of the partnership and the internal management systems of the local corporation. In addition, the program reviews will have become our primary "diagnostic tool" for decision making on the delivery of technical services and programmatic components to NHSs. Our NHS training department, which offers training to each new NHS staff member, also stresses the administrative and strategic tools necessary to keep an NHS operating smoothly.

FY 1986 PROGRAM OUTPUT

By the end of FY 1986, the Corporation will have produced the following results:

- Work will be completed on an additional 16 NHS developments, bringing NHS programs to a total of approximately 137 cities serving 210 neighborhoods.
- An additional 11 neighborhoods and/or sub-neighborhoods will have substantially achieved their goals, bringing to 45 the number of self-reliant NHS neighborhoods.
- Development of NHSs to serve 18 additional neighborhoods will have been initiated.
- Training, technical services and project development assistance will have been provided to approximately 194 operational neighborhood programs to ensure their continuing effectiveness. Start-up operational assistance will have been provided to the 16 newly organized programs. Approximately 125 neighborhood programs will have been monitored through on-site review visits.
- Neighborhood Housing Service of America, with support from Neighborhood Reinvestment and through joint efforts with NHS programs, will have continued to expand the base of private sector support for local program operations, and to further develop the resources needed for the secondary market for NHS revolving loan funds. Through FY 1985, these efforts directly assisted 82 NHSs in broadening their base of local contributions, and through FY 1986, will have enabled NHSA to purchase over $23 million in loans from NHS revolving loan funds.
- Following a nationally focused business press campaign, The Advertising Council will have initiated localized media campaigns in major NHS cities and metropolitan areas, as well as launched a multi media campaign in a number of markets. This will continue to heighten private sector awareness of NHS, increasing the capacity for successful local fundraising, and ensuring the continued success of secondary market fundraising.

- Development work will have been initiated on four to six new Apartment Improvement Programs. Ongoing support, training, and technical services will have been provided to 30 AIPs.

- The following number of complementary programs will have been initiated, cumulatively: 43 Problem Properties Strategies programs, 22 Insurance Full Partnerships serving 54 neighborhoods, two Statewide Foundations, 20 Housing Development Strategies starts including Owner Built Housing programs and 18 Neighborhood Commercial Management efforts.

- Our Neighborhood Preservation Projects staff will continue to identify innovative approaches to stabilize and improve neighborhood environments.

- An operational Mutual Housing Association, patterned after the Western European concept, has been established in Baltimore and its first units occupied by Association members. Additional units under construction in 1986 will bring the total to 49 townhouses. Another demonstration, concentrating on rehabilitation, rather than new construction, is under development on New York City's Lower East Side. A third demonstration site will be selected during 1986.

- Cumulatively, Energy conservation programs will have been developed in 13 NHS programs (including five funded by the Ford Foundation). An ongoing information exchange has been established to provide all NHS programs with up-to-date information on energy conservation, weatherization, materials, and techniques.

B. BUDGET REQUEST FOR FISCAL YEAR 1987

This budget request for fiscal year 1987 is a justification for the amount recommended by the Office of Management and Budget as contained in the Budget of the United States, Fiscal Year 1987. The total request for a Congressional appropriation of $15,285,000 represents a 13.5% reduction in federal funding when compared to fiscal 1986. The following section contains summary tables and line item descriptions pertaining to Neighborhood Reinvestment's proposed fiscal year 1987 budget.

C. BUDGET SCHEDULES - FY 1985-87

The budget schedules that follow present the sources and uses of funds for fiscal years 1985, 1986, and 1987, providing comparisons of expenditures by line item and program element. Also included in this section is a comparison of Neighborhood Reinvestment's programmatic goals for the three year period beginning in fiscal 1985.

Neighborhood Reinvestment Corporation Sources and Uses of Funds for Fiscal Years 1985, 1986, and 1987

In Tables 1, 2, and 3, which follow, combined projections of all sources and application of funds are shown for the years FY85, FY86 and FY87. The Corporation receives its primary funding through a Congressional appropriation.

In fiscal 1985, the Corporation received additional support through the Federal Home Loan Bank System and the Federal Reserve Board, both of which are represented on Neighborhood Reinvestment's Board of Directors. In keeping with the Board member agencies' planned and gradual reduction in support, the funding we will receive from these two board member agencies in FY 1986 will be half of that received in FY 1985. In fiscal 1987, no member agency funds are anticipated. The individual amounts contributed by Board Member entities are shown.

Board Member Contributions FY 1985-1987
(amounts in thousands)

	Fiscal Year Contribution		
Board Entity	FY 1985	FY 1986	FY 1987
Federal Home Loan Bank System	$ 400	$ 200	$ -0-
Federal Reserve Board	400	200	-0-
TOTAL Board Member Contribution	$ 800	$ 400	$ -0-

The fiscal 1986 contributions from Board Member entities funds officers' salaries and benefits as well as programmatic activities, including funds for three Owner-built efforts.

An additional source of funding included in the printed budget schedules is a projection of interest earned. The Corporation earned $1,064,000 on its cash deposits in fiscal 1985. The earnings from this source are expected to be approximately $972,000 in fiscal 1986 and about $800,000 in fiscal 1987. This decline is anticipated as a result of reduced balances and lower yields.

In fiscal years 1986 and 1987, all of the Corporation's available interest earnings will fund grants. This source of funding enhances the Corporation's ability to achieve its programmatic objectives. These earnings are taken into consideration in arriving at the Corporation's budget submission to the Office of Management and Budget, and, in turn, are taken into consideration by the Office of Management and Budget in arriving at its budget recommendations.

Table 1

Neighborhood Reinvestment Corporation
Sources and Uses of Funds - All Sources
Fiscal Year 1985 Actual, Unaudited
($000s)

	CONGRESSIONAL APPROPRIATION	BOARD MEMBER AGENCIES	OTHER SOURCES	TOTAL
SOURCES OF FUNDS:				
Federal Appropriations	$15,512	-0-	-0-	$15,512
Board Member Agencies	-0-	800	-0-	800
Local Governments	-0-	-0-	497	497
Interest and Other Revenue	-0-	-0-	1,113	1,113
Deobligation of Prior Year Grants	-0-	-0-	191	191
Balance, Start of Year	-0-	-0-	318	318
TOTAL SOURCES	$15,512	$800	$2,119	$18,431
USES OF FUNDS:				
Salaries & Benefits	$ 7,918	$173	-0-	$ 8,091
Travel	1,598	-0-	-0-	1,598
Professional Services	399	-0-	-0-	399
Conferences & Workshops	316	-0-	-0-	316
Rent	1,163	-0-	-0-	1,163
Telephone, Postage & Delivery	520	6	-0-	526
Printing & Supplies	389	2	-0-	391
Other General & Administrative	603	1	-0-	604
Grants & Grant Commitments	2,362	618	1,497	4,477
Program Development	244	-0-	497	741
Sub-Total	$15,512	$800	$1,994	$18,306
Carry-Forward to FY86	$ -0-	$-0-	$ 125	$ 125
TOTAL USES	$15,512	$800	$2,119	$18,431

Table 2

Neighborhood Reinvestment Corporation
Sources and Uses of Funds - All Sources
Fiscal Year 1986 Projected
($000s)

	CONGRESSIONAL APPROPRIATION	BOARD MEMBER AGENCIES	OTHER SOURCES	TOTAL
SOURCES OF FUNDS:				
Federal Appropriations	$17,669	-0-	-0-	$17,669
Board Member Agencies	-0-	400	-0-	400
Local Governments	-0-	-0-	600	600
Interest and Other Revenue	-0-	-0-	1,071	1,071
Balance, Start of Year	-0-	-0-	125	125
TOTAL SOURCES	$17,669	$400	$1,796	$19,865
USES OF FUNDS:				
Salaries & Benefits	$ 8,256	$172	-0-	$ 8,428
Travel	1,717	-0-	-0-	1,717
Professional Services	660	-0-	-0-	660
Conferences & Workshops	300	-0-	-0-	300
Rent	1,200	-0-	-0-	1,200
Telephone, Postage & Delivery	478	-0-	-0-	478
Printing & Supplies	330	-0-	-0-	330
Other General & Administrative	523	-0-	-0-	523
Grants & Grant Commitments	3,785	228	1,196	5,209
Program Development	420	-0-	600	1,020
TOTAL USES	$17,669	$400	$1,796	$19,865

Table 3

Neighborhood Reinvestment Corporation
Sources and Uses of Funds - All Sources
Fiscal Year 1987 Proposed
($000s)

	CONGRESSIONAL APPROPRIATION	OTHER SOURCES	TOTAL
SOURCES OF FUNDS:			
Federal Appropriations	$15,285	-0-	$15,285
Local Governments	-0-	500	500
Interest and Other Revenue	-0-	800	800
Balance, Start of Year	-0-	200	200
TOTAL SOURCES	$15,285	$1,500	$16,785
USES OF FUNDS:			
Salaries & Benefits	$ 8,091	-0-	$ 8,091
Travel	1,550	-0-	1,550
Professional Services	400	-0-	400
Conferences & Workshops	300	-0-	300
Rent	1,200	-0-	1,200
Telephone, Postage & Delivery	425	-0-	425
Printing & Supplies	300	-0-	300
Other General & Administrative	475	-0-	475
Grants & Grant Commitments	2,144	1,000	3,144
Program Development	400	500	900
TOTAL USES	$15,285	$1,500	$16,785

The Corporation receives funds from local governments and other entities to defray the direct local costs of developing Neighborhood Housing Services programs. The amounts shown represent a projection of services provided in connection with these projected developmental activities. Though Neighborhood Reinvestment serves as the fiscal agent for the disbursement of these funds, the use of the funds is generally restricted to paying the direct developmental cost of particular projects and is not used to defray general expenses of the Corporation. A decrease in this source of funds from $600,000 in fiscal 1986 to $500,000 in fiscal 1987 is reflective of overall corporate reductions, which will result in fewer projects being undertaken. Table 4, on the following page, compares project development budgets in FY85, FY86, and FY87.

Table 4

NEIGHBORHOOD REINVESTMENT CORPORATION
DETAIL - PROGRAM DEVELOPMENT REVENUE AND EXPENSES
FISCAL YEARS 1985-1987
(Amounts in Thousands)

	1985 Actual	1986 Projected	1987 Proposed
SOURCES OF FUNDS:			
Local Governments	$ 497	$ 600	$ 500
Congressional Appropriation	244	420	400
TOTAL PROGRAM DEVELOPMENT REVENUES	$ 741	$1,020	$ 900
USES OF FUNDS:			
Salaries and Benefits	$ 363	$ 524	$ 415
Travel	106	185	150
Professional Services	69	75	85
Conferences & Workshops	64	73	75
Rent	22	25	30
Telephone, Postage & Delivery	20	27	30
Printing & Supplies	21	24	30
Other General & Administrative	76	87	85
TOTAL PROGRAM DEVELOPMENT EXPENSES	$ 741	$1,020	$ 900

Line Item Comparisons - Fiscal Years 1985-1987 Funding Request

Table 5, on page 32, provides a comparison of actual 1985, projected 1986 and proposed 1987 major line item expenses for Congressionally appropriated funds. The justification for the request shown on Table 5 is provided in the paragraphs which follow.

Expense Category	Projected Expenses 1986	Budget Request 1987	Increase (Decrease)	% Change
Salaries, Payroll Taxes, & Benefits ($000s)	$8,256	$8,091	$(165)	(2.0)

This line includes salary, payroll taxes and benefits for 190 permanent positions. A decrease in staff from 206 to 190 FTE positions will limit total salary and related costs to FY 1985 levels. In the years prior to FY 1987, the salaries and benefits of the Executive Director and Deputy Executive Director were provided by contributions from Board-member agencies. In FY 1987, these positions are necessarily budgeted from the Congressional appropriation. When all sources of funds are considered, the proposed FY 1987 level is a 4% reduction from the FY 1986 budget; 2% from Congressional sources and 2% from other revenue.

The Corporation awards only merit increases to staff who have served at least one year, based upon performance reviews. No cost of living adjustments are provided. A 4% merit increase is budgeted for FY 1987.

Payroll taxes, including FICA, unemployment and workmen's compensation, is budgeted at 8.2% of salary cost compared to 8.1% in FY 1986. This small increase is primarily due to statutory increases in FICA taxes.

The major employee benefits costs are pension, health and dental, and life and long-term disability insurance. Employees benefits are collectively budgeted at 21.4% of salary compared to 19.2% of salary in FY 1986.

Benefits costs were reduced in FY 1986 partly due to certain cost containment measures, but primarily due to a reduction in pension cost by credits due the Corporation for forfeitures of non-vested benefits. Significant credits to the pension plan are not likely to occur again in FY 1987.

In FY 1986 the Corporation made several changes in its employee benefits to contain costs. Certain benefits were eliminated and a flexible benefits "cafeteria" plan was established. The hospitalization and the major medical plans were combined into a single plan. Cost containing features such as inceased deductibles, pre-admission certification and second surgical opinions were added.

Expense Category	Projected Expenses 1986	Budget Request 1987	Increase (Decrease)	% Change
Travel ($000s)	$1,717	$1,550	$ (167)	(9.7)

This line item provides funds for the business travel and related expenses for staff (and for non-staff members, who participate as resources in Neighborhood Reinvestment planning meetings and educational workshops). All air travel is calculated at the GSA government discounted rate; hotel rates are calculated at up to $42.00 per day (except in certain high cost cities); and meals are calculated at a maximum of $30.00 per day.

Expense Category	Projected Expenses 1986	Budget Request 1987	Increase (Decrease)	% Change
Professional Services ($000s)	$660	$400	($260)	(39.4)

This line budgets for professional services contracts. This expense will decline between fiscal 1986 and 1987 by 39.4 percent. The decrease is primarily due to a reduction in professional assistance in the development of new programs, and a reduction in our contribution to the Advertising Council. We do not expect a significant decrease in the cost of the Ad Council Campaign; however, we will make every effort to identify private sources of funding to meet the total cost. Other items in the category are unavoidable, fixed-rate expenses, such as legal fees, audit fees, and payroll services. A schedule of professional service expenses planned for fiscal 1986 and 1987 follows on the next page.

NEIGHBORHOOD REINVESTMENT CORPORATION
Professional Services
(dollars in thousands)

	Projected Expenses 1986	Budget Request 1987	Increase (Decrease)	% Change
NHS Program/Training	$ 45	$ 45	$ 0	---
Program Development	216	111	(105)	(48.6)
Accounting Services (EDP)	27	27	0	---
Legal Fees	36	36	0	---
Audit Fees/Internal Control	18	18	0	---
Staff Development	55	50	(5)	(9.1)
Personnel	8	8	0	---
Prog. Info. & Research	5	5	0	---
Advertising Council	250	100	(150)	(60.0)
TOTAL	$660	$400	(260)	(39.4)

Expense Category	Projected Expenses 1986	Budget Request 1987	Increase (Decrease)	% Change
Conferences & Workshops ($000s)	$300	$300	-0-	-0-

This line item provides funds for expenses related to educational conferences, training workshops, program reviews and staff meetings held by Neighborhood Reinvestment. Such expenses include meals, ground transportation, meeting rooms and registration fees. This line is held even by not planning a FY 1987 National NHS Leadership Conference, last held in FY85 and normally scheduled in alternate years.

Expense Category	Projected Expenses 1986	Budget Request 1987	Increase (Decrease)	% Change
Rent ($000s)	$1,200	$1,200	-0-	-0-

This line, which includes rent and utilities for all offices, is held even despite increases in most existing rental contracts because of savings related to the FY86 relocation of our Washington D.C. office and the expected reduction in space in one or two field offices.

The field offices which, in addition to the Washington headquarters, will be funded by this line are the following: Boston, Massachusetts; Atlanta, Georgia; Kansas City, Missouri; Oakland, California; East Orange, New Jersey; Charlotte, North Carolina; Baltimore, Maryland; Los Angeles, California; Saratoga Springs, New York; Cincinnati, Ohio; Dallas, Texas; San Antonio, Texas; Lincoln, Nebraska; Denver, Colorado; Seattle, Washington; Chicago, Illinois and Yonkers, New York.

These regional and field offices are used by field staff who are directly managing NHS and AIP developments and providing training and technical services across the nation. They have been established within districts in consideration of program concentrations to minimize travel expense.

Expense Category	Projected Expenses 1986	Budget Request 1987	Increase (Decrease)	% Change
Telephone, Postage, and Delivery ($000s)	$478	$425	$(53)	(11.1)

This line provides funds for communication expenses of the Corporation including telephone installation and service in the Washington and field offices, and local and long distance toll charges for offices and individual staff members on business travel. Also included are Washington and field office postage and delivery needs.

Despite the broadest possible use of competitive telephone service, the increases in postage and delivery costs will require significant decreases in phone use to achieve this projected reduction.

Expense Category	Projected Expenses 1986	Budget Request 1987	Increase (Decrease)	% Change
Printing & Supplies ($000s)	$330	$300	$(30)	(9.1)

This line item provides funds for the development and printing of the annual report, quarterly newsletters, and several programmatic brochures. In addition, the printing of training manuals, forms, and stationery are funded by this line item. Also included are photographic supplies, visual materials and general office supply needs.

The 9.1% reduction in this line will require a reduction in the production of printed material.

Expense Category	Projected Expenses 1986	Budget Request 1987	Increase (Decrease)	% Change
Other General and Administrative ($000s)	$523	$475	$(48)	(9.2)

This category of expense includes insurance, temporary clerical services, equipment rental and maintenance, subscriptions, publications, professional dues, classified ads, purchases of equipment and furniture, and miscellaneous expenses to achieve the proposed level of savings, significant reductions are planned in the purchase of: furniture and equipment, publications, dues and subscriptions, and miscellaneous expenses.

The following is a detailed comparison of FY 1986 and FY 1987 expenses in this category ($000s):

Description	Projected Expenses 1986	Budget Request 1987	Increase (Decrease)	% Change
Insurance	$ 18	$ 18	-0-	-0-
Agency Fee & Temporary Help	37	35	(2)	(5.4)
Temporary Clerical Services	13	13	-0-	-0-
Equipment Rental	129	120	(9)	(7.0)
Equipment Maintenance	50	47	(3)	(6.0)
Publications, Dues & Subscriptions	32	28	(4)	(12.5)
Classified Ads	12	11	(1)	(8.3)
Miscellaneous	18	16	(2)	(11.1)
Furniture & Equipment	214	187	(27)	(12.6)
TOTAL	$ 523	$ 475	$ (48)	(9.2)

Expense Category	Projected Expenses 1986	Budget Request 1987	Increase (Decrease)	% Change
Grants and Grant Commitments ($000s)	$3,785	$2,144	$(1,641)	(43.4)

This line item provides for the following types of grants: Neighborhood Housing Services grants to seed new developments and expansion of existing NHS programs; NHS special operating grants to assist NHSs during short periods of critical cashflow difficulties; Apartment Improvement Program grants to help defray initial operating costs; Product Design (Neighborhood Program Development) grants to assist NHS programs taking on pilot replications of programmatic supplements; Program Research (Neighborhood Preservation Projects) grants to administratively support innovative, locally-operated neighborhood preservation programs that offer solutions to common NHS neighborhood concerns; Training and Educational grants to local NHS and AIP programs to permit program partnership and staff members to participate in specific training programs and educational workshops; Neighborhood Housing Services of America grants to further capitalize the national loan purchase pool, fund related operating costs, and provide for other contractual services, such as the development of private funding resources for NHSs.

A comparison of grant amounts to be funded in FY86 and FY87 follows ($000s):

Description	Projected Expenses 1986	Budget Request 1987	Increase (Decrease)	% Change
NHS Development & Expansion Grants	$ 825	$ 400	$ (425)	(51.5)
NHS Special Operating Grants	110	80	(30)	(27.3)
AIP Grants	110	75	(35)	(31.8)
NPD (Product Design) Grants	875	530	(345)	(39.4)
NPP Grants (Program Research)	275	225	(50)	(18.2)
Training and Educational Grants	424	334	(90)	(21.2)
NHSA Grants	1,509	1,500	(9)	(0.6)
Mutual Housing Association Demonstration Capital Grant	1,000	-0-	(1,000)	(100.0)
TOTAL - All Sources	$ 5,209	$3,144	$(2,065)	(39.6)
Amount Funded From Sources Other than Appropriation	$(1,424)	1,000	(424)	(29.8)
Appropriated Funds	$ 3,785	$2,144	$(1,641)	(43.4)

In order to continue to serve a like number of neighborhoods as in FY86, the amount of each individual grant in FY87 is dramatically reduced. Start-up grants to new NHS neighborhoods, now averaging $45,000 per program start, are reduced to an average of $22,000 each. AIP grants, now averaging $35,000 each, are reduced to an average of $18,000 each. Our staff will continue to conduct impact case studies, but the NHS will not receive a grant to document or further plan impact strategies. These reductions would limit the scope of each effort and could, in many cases, delay the attainment of neighborhood goals.

Expense Category	Projected Expenses 1986	Budget Request 1987	Increase (Decrease)	% Change
Project Development	420	400	(20)	(4.8)

This category funds individual program developments, the establishments of new and expanding NHS programs, AIP programs and NPD developments.

The sources and uses of project development funds by line item appear on page 24. Below is the projected use by type of development activity for all sources of funding.

Expense Category	Projected Expenses 1986	Budget Request 1987	Increase (Decrease)	% Change
NHS Development	576	550	(26)	(4.5)
AIP Development	244	200	(44)	(18.0)
NPD Development	200	150	(50)	(25.0)
	1,020	900	(120)	(12.0)

Table 5

Neighborhood Reinvestment Corporation
Line Item Comparison
Fiscal Years 1985-1987 - Congressional Appropriations
($000)

	FY 1985 Actual	FY 1986 Projected	FY 1985-1986 Difference	FY 1985-1986 % Change	FY 1987 Proposed	FY 1986-1987 Difference	FY 1986-1987 % Change
Salaries and Benefits	$ 7,918	$ 8,256	$ 338	4.3	$ 8,091	$ (165)	(2.0)
Travel	1,598	1,717	119	7.5	1,550	(167)	(9.7)
Professional Services	399	560	261	65.4	400	(260)	(39.4)
Conferences and Workshops	316	300	(16)	(5.1)	300	0	0.0
Rent	1,163	1,200	37	3.2	1,200	0	0.0
Telephone, Postage and Delivery	520	478	(42)	(8.1)	425	(53)	(11.1)
Printing and Supplies	389	330	(59)	(15.2)	300	(30)	(9.1)
Other General and Administrative	603	523	(80)	(13.3)	475	(48)	(9.2)
Grants and Grant Commitments	2,362	3,785	1,423	60.2	2,144	(1,641)	(43.4)
Project Development	244	420	176	27.9	400	(20)	(4.8)
TOTAL	$15,512	$17,669	$2,157	13.9	$15,285	$(2,384)	13.5

483

Table 6

Neighborhood Reinvestment Corporation
Line Item Comparison
Fiscal Years 1985-1987 - All Sources of Funds
($000)

	FY 1985 Actual	FY 1986 Projected	FY 1985-1986 Difference	FY 1985-1986 % Change	FY 1987 Proposed	FY 1986-1987 Difference	FY 1986-1987 % Change
Salaries and Benefits	$ 8,091	$ 8,428	$ 337	4.2	$ 8,091	$ (337)	(4.0)
Travel	1,598	1,717	119	7.5	1,550	(167)	(9.7)
Professional Services	399	660	261	65.4	400	(260)	(39.4)
Conferences and Workshops	316	300	(16)	(5.1)	300	0	0.0
Rent	1,163	1,200	37	3.2	1,200	0	0.0
Telephone, Postage and Delivery	526	478	(48)	(9.1)	425	(53)	(11.1)
Printing and Supplies	391	330	(61)	(15.6)	300	(30)	(9.1)
Other General and Administrative	604	523	(81)	(13.4)	475	(48)	(9.2)
Grants and Grant Commitments	4,477	5,209	732	16.4	3,144	(2,065)	39.6
Project Development	741	1,020	279	37.7	900	(120)	11.8
TOTAL	$18,306	$19,865	$1,559	8.5	$16,785	$(3,080)	(15.5)

484

Comparison of Program Goals and FY85, FY86 and FY87 Funding Request

Table 7, on the following page, provides a comparison of fiscal 1985, 1986 and 1987 program goals and funding requirements for various Neighborhood Reinvestment activities.

Table 3, on the following page, compares the FY85, FY86 and FY87 costs for four broad areas:

Neighborhood Housing Services Development, Training & Technical Services
Apartment Improvement Programs
Research and Pilot Replication
General Administration.

Table 7

Neighborhood Reinvestment Corporation
Comparison of Program Goals/FY[illegible]-FY87

	FY 1985	FY 1986	FY 1987
NEIGHBORHOOD HOUSING SERVICES			
NHS Starts & Expansions	17	18	18
Reorganizations*	4	4	3
Neighborhood Goals Achieved (cumulative)	34	45	56
Programmatic Supplements:			
Problem Property Strategies	7	4	2
Insurance Full Partnerships	0	1	0
Owner Built Housing	7	4	3
Neighborhood Commercial Management:			
Large-Scale Starts	3	2	2
Small-Scale Strategy Development Grants	3	2	2
TRAINING, TECHNICAL SERVICES, AND PROJECT DEVELOPMENT ACTIVITIES			
Programs-Tech & Start-Up Services	205	210	215
Program Reviews	105	125	110
Secondary Market Capitalization ($000)	550	550	500
Training Conference - # Participants	1,333	750	500
Training NHS Staff Members - # Participants	145	185	160
Training NHS Board Members - # Participants	225	240	200
Intern Awards	68	70	50
APARTMENT IMPROVEMENT PROGRAMS			
Starts & Expansions	4	4	4
Existing Projects - Technical Services	27	30	34
FNMA Master Commitment	$1.25M	$23.75M	$15M
RESEARCH & PILOT REPLICATION			
Neighborhood Preservation Projects	21	15	11
Mutual Housing Association Demonstrations:			
Starts	1	1	0
Capital Grant	0	1	0
Technical Services	2	2	2
Neighborhood Impact Case Studies	15	12	10
TOTAL FUNDING LEVEL (in thousands)	$18,306	$19,865	$16,785
ESTIMATED STAFF POSITIONS	193	206	190

* Anticipated Level of Activity, Not a Goal

Table 8

Neighborhood Reinvestment Corporation
Programmatic Comparisons
Fiscal Years 1985-1987 - All Sources of Funds
($000)

		FY 1986	FY 1985-1986		FY 1987	FY 1986-1987	
	FY 1985	Estimate	Difference	% Change	Projected	Difference	% Change
NHS Development	$ 3,583	$ 4,065	$ 482	13.5	$ 3,400	$ (665)	(16.4)
Programmatic Supplements	2,346	2,620	274	11.7	2,100	(520)	(19.9)
Training and Development Assistance	5,750	5,845	95	1.7	5,585	(260)	(4.5)
TOTAL Neighborhood Housing Services	11,679	12,530	851	7.3	11,085	(1,445)	(11.5)
Apartment Improvement Program	796	980	184	23.1	800	(180)	(18.4)
Research and Pilot Replication	1,161	1,840*	679	58.5	1,000	(840)	(45.7)
General Administration	4,670	4,515	(155)	(3.3)	3,900	(615)	(13.6)
TOTAL All Programs	$18,306	$19,865	$1,559	8.5	$16,785	$(3,080)	(15.5)

* Includes $1 million capital grant for the Mutual Housing Rehab Demonstration.

488

NEIGHBORHOOD REINVESTMENT ORGANIZED NHS PROGRAMS AND NEIGHBORHOOODS

NHS Programs are operating currently in 207 neighborhoods in 137 cities, towns or counties.

*Aberdeen, Washington (3)
Albuquerque, New Mexico
Allentown, Pennsylvania
Anchorage, Alaska
*Atlanta, Georgia (2)
Aurora, Illinois
*Baltimore, Maryland (3)
**Barberton, Ohio
Barre, Vermont
*Beaumont, Texas (2)
Beloit, Wisconsin
Boise, Idaho
*Boston, Massachusetts (3)
*Bridgeport, Connecticut (3)
*Buffalo, New York (6)
Burton, Michigan
***Cambridge, Massachusetts
Casper, Wyoming
Cattaraugus County, New York
Charleston, South Carolina
Charlotte, North Carolina
*Chattanooga, Tennessee
*Chelsea, Massachusetts (2)
*Chicago, Illinois (6)
*Cincinnati, Ohio
Clackamas County, Oregon
Clearwater, Florida
*Cleveland, Ohio (4)
Colorado Springs, Colorado (2)
*Columbus, Ohio (2)
Cumberland, Maryland
*Dallas, Texas (2)
Davenport, Iowa
*Denver, Colorado (2)
*Des Moines, Iowa
*Detroit, Michigan (3)
Duluth, Minnesota
Durham, North Carolina
East Providence, Rhode Island
East Randolph, Vermont
Elgin, Illinois
**Emeryville, California
**Evansville, Indiana(2)
Ft. Lauderdale, Florida
Ft. Worth, Texas
Gainesville, Florida
Great Falls, Montana
Green Bay, Wisconsin
*Hartford, Connecticut (2)
*Houston, Texas (2)
*Indianapolis, Indiana (3)
Inglewood, California
Ithaca, New York
Jackson, Mississippi
Jacksonville, Florida
Jersey City, New Jersey
Kalamazoo, Michigan
Kankakee, Illinois
Kansas City, Kansas
Kansas City, Missouri
Kenosha, Wisconsin
Knoxville, Tennessee
La Habra, California
Lafayette, Indiana
Lafayette, Louisiana
Lakeland, Florida
Lawrence, Massachusetts
*Los Angeles, California (4)
Louisville, Kentucky
Mabton, Washington
Menlo Park, California
Miami, Florida
*Milwaukee, Wisconsin (2)
*Minneapolis, Minnesota (4)
*Newark, New Jersey (2)
New Britain, Connecticut
*New Haven, Connecticut (2)
*New Orleans, Louisiana (2)
*New York, New York
  Bronx (2)
  Brooklyn (2)
  Queens (2)
  Staten Island
Niagara Falls, New York
Norwalk, Connecticut
Oakland, California
Oklahoma City, Oklahoma
Omaha, Nebraska
Orlando, Florida
Pasadena, California
Peoria, Illinois
*Philadelphia, Pennsylvania (4)
*Phoenix, Arizona (2)
Pittsburgh, Pennsylvania
Pontiac, Michigan

Providence, Rhode Island
Pueblo, Colorado
Quincy, Illinois
Quincy, Massachusetts
Reading, Pennsylvania
Richland Center, Wisconsin
Richmond, California
Richmond, Virginia
*Rochester, New York (2)
Saginaw, Michigan
*St. Louis, Missouri (6)
*St. Paul, Minnesota (2)
St. Petersburg, Florida
*Salt Lake City, Utah (2)
San Antonio, Texas
San Bernardino, California
San Diego, California
Santa Ana, California
Savannah, Georgia
*Scranton, Pennsylvania (2)
*Shreveport, Louisiana (5)
*South Bend, Indiana (2)
South Portland, Maine
*Springfield, Massachusetts (2)
Springfield, Ohio
Stamford, Connecticut
Syracuse, New York
*Tacoma, Washington
Tampa, Florida
*Toledo, Ohio (2)
Trenton, New Jersey
*Tucson, Arizona (2)
Tulsa, Oklahoma
*Union County, New Jersey
  Linden
  Rahway
  Roselle
Utica, New York
Vallejo, California
*Washington, D.C. (2)
Waterbury, Connecticut
Waterloo, Iowa
West Palm Beach, Florida
Winston-Salem, North Carolina

*Multi-neighborhood Programs
**Originally organized as Neighborhood Conservation Services Programs
***Neighborhood Apartment Housing Services

NEIGHBORHOOD REINVESTMENT SELF-RELIANT NEIGHBORHOODS

Baltimore, MD (Baltimore-Linwood)
Baltimore, MD (Patterson Place)
Barberton, OH (Van Hyning)
Boston, MA (Columbia)
Boston, MA (Savin Hill)
Charlotte, NC (The Plaza)
Charlotte, NC (Midwood)
Chattanooga, TN (Glenwood)
Chicago, IL (Near Northwest)
Cincinnati, OH (Carthage)
Cincinnati, OH (Madisonville)
Dallas, TX (North Park/Love Field)
Des Moines, IA (Highland Park)
Hartford, CT (Blue Hills)
Kansas City, MO (Eastern 49-63)
Kansas City, MO (South Hyde Park)
Knoxville, TN (Parkridge)
Lawrence, MA (Arlington)
Little Rock, AR (Cen. Little Rock)
Minneapolis, MN (Regina)
Nashville, TN (Belmont)
Nashville, TN (Waverly)
Nashville, TN (Hillsboror)
New Haven, CT (Upper State State)
Norwalk, CT (West Main)
Peoria, IL (West Bluff)
Pueblo, CO (Minnequa Heights)
Racine, WI (North Side)
Salt Lake City, UT (E. Liberty Park)
South Portland, ME (Ferry Village)
St. Louis, MO (Benton Park)
St. Louis, MO (Soulard)
St. Paul, MN (Merriam Park)
Tampa, FL (Hyde Park)

Attachment B-1

NEIGHBORHOOD REINVESTMENT PROGRAMS

Neighborhood Housing Services

A neighborhood-based, non-profit corporation governed by a voluntary board of directors. The program is a working partnership of neighborhood residents, business and financial leaders, and city representatives. The NHS goal is to return a declining neighborhood to a healthy, self-reliant state. Its tools include coordinated housing inspections, rehabilitation, and loan services as well as specific components necessary to carry out its block-by-block revitalization strategies. The NHS may offer services in more than one neighborhood in a city.

Apartment Improvement Program

The AIP joins the city, financial institutions, property owners, tenants, and neighborhood organizations in a partnership to upgrade large apartment buildings. The AIP may be a separate non-profit corporation, part of an NHS, or part of a city housing department.

Problem Property Strategies

The Problem Property Strategies program addresses specific barriers in the neighborhood revitalization process, such as vacant or abandoned houses, lack of affordable rental units, or a low ratio of homeownership.

Housing Development Strategies-Owner Built Housing

Owner Built is a housing construction process that helps moderate income families to collectively build their own homes. Developed as part of an NHS, the program addresses problems such as the negative impact of vacant lots in a community and the need for affordable housing. Owner Rehab Housing organizes families to rehab vacant existing structures.

Neighborhood Commercial Management Program

This program assures the viability of commercial districts in NHS neighborhoods by strengthening small businesses, improving the physical environment of the area, and providing additional goods, services, and employment in the neighborhood.

Insurance Industry Full Partnership

This program strengthens NHS efforts through insurance company participation on NHS boards and committees, financial contributions to NHSs and the NHSA secondary market, and assisting NHS residents in understanding and obtaining standard insurance coverage for their properties.

Mutual Housing Association

The Mutual Housing Association develops, owns, and manages housing in the public interest. It offers a form of tenure that provides its resident members both the privilege of life-occupancy and a quality home at an affordable cost. The member shares in both the cost of production through a one-time membership fee and in the maintenance and management responsibilities.

Program Research - Neighborhood Preservation Projects

The Program Research Department seeks out promising strategies and new tools for reversing factors causing neighborhood decline.

Attachment B-2

NEIGHBORHOOD HOUSING SERVICES MODEL

Neighborhood Housing Services (NHS) is a comprehensive coordinated reinvestment strategy to produce neighborhood revitalization for the benefit of current residents. This strategy, carried out by a partnership of neighborhood residents, business and financial leaders, and local government officials, systematically improves housing and upgrades neighborhood amenities. The goal of NHS is to exert a stabilizing influence on a neighborhood, reversing decline, and reducing risk for lenders, insurers, and others doing business in the neighborhood.

For this strategy to have the desired long-term results, and for there to be a renewal of confidence, an improved quality of life must be perceived in the neighborhood by the residents and by the larger community. This perception reverses the weak demand factors which contribute to disinvestment.

Neighborhood revitalization is accelerated by tying explicit block-by-block goals for improvements in image, market and physical condition into initial neighborhood inventories. Success is then measured in terms of meeting the block-by-block goals to attain self-reliance.

To accomplish its goals, NHS has the following basic components and services:

> Private and Independent: Funding for the operating budget is provided primarily by financial and business organizations. Government funds are contributed to the revolving loan fund and, in a growing number of cases, have been contributed to operating funds. Strong efforts are made to ensure that government funding does not damage the private character of the program through disproportionate government control.
>
> Nonprofit Corporation: NHS programs are incorporated under the 501(c)(3) I.R.S. tax code and are therefore tax-exempt charitable organizations. No stock or profit accrues to its members.
>
> Locally Controlled: The NHS program is governed by a local board of directors made up of neighborhood residents, at-large community members, business and local government representation. NHS is not a government controlled program. Neighborhood Reinvestment input is through monitoring and the provision of training, technical services and project development assistance by invitation of the NHS board of directors.
>
> Designated Neighborhood: The NHS operates in a neighborhood with defined boundaries. Multiple neighborhoods are encouraged where resources can be raised to adequately serve each neighborhood.

Numerical Majority of Residents on Board: Both the board and committee structure reflect the partnership and although no partner controls, neighborhood residents constitute a numerical majority of the board. Local government participation is by board membership and/or meaningful committee participation.

Working Board: The NHS board manages the affairs of the corporation. It accepts and carries out the ongoing responsibility for maintaining the resources necessary to operate the NHS program. Other responsibilities include assuring proper financial management, designating target areas, reaching agreements with local government on appropriate code inspection services and public improvements, maintaining a viable partnership including a strong level of organized resident participation, providing effective staffing, and designing creative strategies to accomplish particular neighborhood objectives. The board carries out those responsibilities through a committee structure.

Skilled and Committed Staff: NHS programs have operated successfully with as few as three staff members; however, where resources have permitted it, programs have achieved greater momentum with a staff of four or more. The staff, under supervision of an executive director, implements activities mandated by the board of directors. The staff provides management support to the board of directors in its fundraising efforts.

Organized Resident Support: Organized resident support is provided by resident board members and by other organized neighborhood groups to stimulate strong resident participation in the program and create a positive improvement climate within the neighborhood.

Offices in the Neighborhoods: The NHS program is administered from offices in the designated neighborhood(s).

Through a cooperative effort, the staff, board, and committees assure that the following services are made available to neighborhood residents needing them:

Financial Services: The NHS offers financial counseling and makes referrals to financial institutions or other agencies as appropriate.

Bankable Lending: Financial institutions cooperate to provide mortgage and home improvement loans based upon sound underwriting criteria.

Public Loan Resources: Local and state government loan resources are utilized whenever NHS clients can meet their qualifications.

Revolving Loan Fund: NHS administers a loan fund to meet the needs of nonbankable NHS clients. Loans are made at flexible rates and terms which fit the borrower's ability to repay. The loan is secured by the property, usually a second deed of trust or mortgage. The loan fund is a private source of loans, not grants, which are to be paid back to provide a continuing resource to the neighborhood(s).

Rehabilitation Counseling: NHS provides design assistance, cost estimates, work write-ups (specifications), and home repair counseling.

Construction Monitoring: NHS can provide on-site inspections of work in progress for any rehabilitation in the NHS target area, not only those receiving an NHS loan. Thus, NHS serves as a community communication link between contractors and residents.

Code Inspections: A sensitive, systematic, and comprehensive housing inspection program is often a key to program effectiveness. The inspections are aimed at achieving voluntary compliance with generally accepted health and safety standards, but are backed up with local legal authority. In order to implement this strongly recommended program component a city designates specific inspectors to work with the NHS.

Advocacy for Neighborhood Improvement: NHS concentrates on improving the quality of life for neighborhood residents. It is not merely a lending program. NHSs secure public and private resources for any vital neighborhood improvements. The board of directors continuously evaluates NHS progress towards stabilizing the neighborhood, and may add new program components or expand services to additional areas. After a neighborhood has achieved a self-reliant state, NHS may continue to provide some minimal level of services.

Neighborhood Reinvestment: The role of Neighborhood Reinvestment is to develop the partnership which forms the heart of the NHS. To maintain the strength and vitality of the program, Neighborhood Reinvestment offers a variety of services including on-site workshops and educational programs, specialized training for new NHS staff, educational conferences for NHS boards of directors and staffs, other technical services, grants and project development assistance.

Attachment B-3

THE DEVELOPMENTAL PROCESS

Bringing an NHS program into existence involves creating a working partnership among disparate groups -- groups which, before the NHS developmental process, more often than not exhibit some degree of hostility or lack of confidence in one another. Establishing positive relationships among business people, representatives of local government and neighborhood residents is the central thrust of the developmental process. The men and women on the staff of Neighborhood Reinvestment are trained in educational processes designed to "build bridges" between the partnership groups, enabling the three groups to discover the common ground on which each of their self-interests will be served and to provide them with the necessary information and understanding to develop an NHS program tailored to the needs of their local community.

The developmental process necessary to establish a new NHS usually takes between 9 and 12 months. The process begins with an application or expression of interest from a city government, a community group, or a local financial institution. In response to that inquiry, Neighborhood Reinvestment staff visit the city in order to assess the potential availibility of local financial resources and the willingness of potential members of the partnership to commit their energies to the program.

Once Neighborhood Reinvestment staff are convinced that the potential commitments exist for the formation of an NHS, a field services officer is assigned and a development coordinator is hired. The development coordinator, someone already familiar with the community, works with members of the potential partnership groups in preparation for a carefully designed set of workshops and committee tasks in which local participants develop working relationships and an important sense of joint authorship of the NHS.

The first workshop brings together business and financial leaders, city officials, and community leaders to learn in depth about NHS and commit themselves to establishing a program. An affirmative decision involves the following commitments:

- All partners agree to serve on committees for the remainder of the developmental process and to actively participate in the affairs of the NHS once established.
- Business and financial leaders agree to make financial contributions in support of the NHS operating budget. Financial leaders agree to make home improvement and purchase mortgages to qualified NHS residents.
- Local government officials agree to make capital improvements and code inspections in the target neighborhood, cooperating with residents in identifying needs. They agree to make low interest loan programs available to qualifying NHS clients. Officials also commit to provide capital for a revolving loan fund for unbankable residents. In some communities, local and state governments may also provide part of the NHS operating budget.

- Residents agree to actively participate in the program by improving their homes and neighborhoods in cooperation with the other two partners.

In the remaining workshops, the participants select a target neighborhood, recruit significant resident representation from the selected neighborhood, witness an operational NHS in another city, adopt by-laws for the new corporation, and elect a board of directors. The developmental process culminates with the hiring of staff and initiation of operations in the NHS neighborhood.

When program operations begin, Neighborhood Reinvestment provides training, ongoing technical services, and project development assistance to the board and staff upon request.

Attachment B-4

TRAINING, TECHNICAL SERVICES AND PROJECT DEVELOPMENT ASSISTANCE

PROGRAM GOAL

Training, technical services and project development assistance ensures the continued effectiveness of NHS programs. The resources Neighborhood Reinvestment provides to existing Neighborhood Housing Services programs are often essential to the NHS continued progress.

METHODS OF ACHIEVEMENT

The program goals are accomplished by an array of support activities, which generally fall within the categories of:

I. Formal Training Courses, Educational Conferences and Information Services
II. Technical Services
III. Project Development Assistance

I. FORMAL TRAINING COURSES, EDUCATIONAL CONFERENCES AND INFORMATION SERVICES

These services are essential in meeting the ongoing training and educational needs of NHS and AIP programs. They strengthen local program capacity to reach their overall goal of neighborhood self-reliance. Services in this category include:

1. FORMAL TRAINING COURSES
Neighborhood Reinvestment's NHS training department offers several intensive courses for new and prospective NHS staff members to increase their understanding of program operations and the development of neighborood improvement strategies.

   - Training Program in Nonprofit Management Skills
     This course for new executive directors and assistant directors provides participants with a grounding in the philosophy and goals of NHS and AIP and basic instruction in staff and program management, financial management, NHS revolving loan fund management, loan processing, construction monitoring, communicty revitalization strategies, and fundraising.

- Training Program in Nonprofit Construction Management
  This course provides basic instruction in the skills needed by NHS construction managers to deliver quality construction assistance, including building inspection methods, specification writing, cost estimating, project management and documentation. The course also reviews the design, installation, and trouble-shooting of residential mechanical systems.

- Training Program in Nonprofit Residential Real Estate Development
  This course introduces more experienced executive directors to the procedures and skills required to expand their neighborhood revitalization activities into the acquisition, rehab, and sale of neighborhood problem properties and into small development projects involving the renovation or new construction of single and multifamily structures.

- Training Program in Neighborhood Commercial Revitalization
  This course introduces experienced executive directors to the skills required to devise and implement a strategy for revitalizing neighborhood commercial districts. Areas covered include development strategies, market studies, development finance and commercial loan packaging.

2. EDUCATIONAL CONFERENCES
   Each year, a number of special purpose conferences are held to improve and expand upon the skills of NHS participants. They provide an opportunity for NHS participants to share experiences and knowledge with others working toward similar neighborhood goals.

3. INFORMATION SERVICES:

   To share the accumulated the knowledge and skills of our staff and the NHS network, numerous publications and informative materials are provided. They include: Newsletters and publications ("Bright Ideas", "Stone Soup", "Technical Notes"); Manuals and guides (Loan process guide, construction process guide, fundraising manual, financial management & accounting guide); Sample materials (marketing pieces, local program brochures, "model" agreements and proposals, planning documents, case statements, neighborhood inventory/impact instruments); Access to resources (information on contributors and grant sources, historic preservation groups, H.U.D. and other programs); Visual aids (filmstrips, slide shows, video tape recordings films); Research and development publications; (NPP "how to" manuals).

II. TECHNICAL SERVICES

A substantial portion of field staff activity includes on-site training and technical services. Such services include the following:

1. LOCAL TRAINING AND EDUCATIONAL WORKSHOPS

- NHS Executive Director Orientation
  Orientation provides a new director with a general overview of NHS operations and a recommendation for an individually-tailored self-education program which may include an internship in a financial institution or a department within the city government. The orientation also assists the director to get local operations underway by acquiring administrative materials developed by other NHS programs.

- Board of Directors Workshops
  Field staff help the boards of newly-formed programs plan and conduct workshops to formulate committee structures, establish goals, and define the roles of board members and staff. Established boards may request a workshop as a structured forum in which to review their progress, set new goals, or draw upon the experience of other programs to overcome a particular problem.

- Local Educational Workshops
  Many NHSs request assistance in conducting special workshops. The workshops may serve a variety of goals, such as organizing or revamping committees, developing a marketing plan or resolving difficult operational issues.

2. OPERATIONAL ASSISTANCE AND PROBLEM SOLVING

Assistance may be provided in such areas as staff recruitment and evaluation, personnel policies, legal responsibilities, committee functions, bookkeeping and accounting, general management systems, community relations, marketing, construction processes, fundraising, and neighborhood strategy development. Some of these activities are outlined on the following page.

- Program Reviews

  The purpose of a program review is to monitor the NHS' progress and to facilitate a self-examination by the partnership of the NHS program. This is accomplished through meetings with the partners and working committees to discuss their roles, program activities, accomplishments, and challenges facing the NHS. An evaluation of program management and service delivery systems is accomplished through a review of the lending, rehab, and fiscal management elements of the program.

- Fundraising Assistance

  Traditionally, NHS operating budgets have been contributed primarily by local financial institutions. However, the difficult economic condition of thrift institutions and banking deregulation has reduced the ability of NHS programs to raise adequate funds from this source. Remaining sources of federal assistance are subject to intensified local competition. As a result, a broader base of corporate support is required in most communities for NHS programs to maintain current services and undertake programmatic and geographic expansions.

  Training in the development of financial resources for NHS programs is a shared responsibility of Neighborhood Reinvestment and Neighborhood Housing Services of America (NHSA). We have jointly undertaken a financial development effort to provide assistance to the NHSs in raising local operating budgets and to expand the secondary market to meet the needs of NHS revolving loan funds. Thus, a major focus of Neighborhood Reinvestment field staff efforts is to provide assistance to NHSs to undertake local fundraising campaigns in their cities.

- NHSA Secondary Market Loan Packaging Assistance

  A significant element leading to the success of NHS programs is their continued ability to provide low interest home improvement loans to homeowners who are unable to obtain financing through conventional means. This assistance is provided through a revolving loan fund. This loan fund is initially capitalized by Neighborhood Reinvestment through a direct grant leveraged by other grants from local governments, foundations, and corporations.

  Revolving funds would soon be exhausted were there not a secondary market for the loans. This secondary market is provided through the financial operations of Neighborhood Housing Services of America (NHSA). Neighborhood Reinvestment staff may be called on to assist the NHSs in the packaging and selling of loans to the secondary market.

- Reorganization Assistance

  When a program is unable to maintain quality services, intervention will realistically resolve issues, strengthen financial and management autonomy or achieve clear direction toward neighborhood goals, intensive reorganization assistance may be provided.

- Neighborhood Impact Planning
  Field staff provide assistance to existing NHS programs to design, plan and implement a comprehensive neighborhood impact plan. This includes the development of neighborhood strategies to achieve neighborhood goals. Neighborhood strategies help the NHS board and neighborhood residents to set specific, block-by-block goals toward completing work in their neighborhood.

- Crisis Intervention
  Field staff provide assistance to an existing NHS to address serious, short-term problems (weak management, large operating budget deficiencies, litigation and factionalism) which temporarily adversely affect the program's productivity and effectiveness.

- Interim Staffing
  Field staff may, in exceptional circumstances, maintain crucial daily operations during vacancies of key NHS staff members.

III. PROJECT DEVELOPMENT ASSISTANCE

As the NHS programs have grown in experience and sophistication, they have sought to develop strategies for solving difficult neighborhood problems outside of the originial focus of owner-occupied housing rehabilitation. Neighborhood Reinvestment staff is frequently called upon to provide assistance in the development and implementation of such strategies. Assistance may range from putting an NHS program into contact with another NHS or community-based organization which has dealt successfuly with similar problems to playing an essential active role in project development. Examples of such projects include:

-- Computer management of neighborhood inventories;
-- Restoration of historically significant buildings;
-- Moving vacant houses onto neighborhood sites;
-- Syndication of multi-family projects;
-- Creation of subsidiary development corporations;
-- Establishment of limited equity co-ops;
-- Adaptive reuse of obsolete buildings.

Median Income Data[1]

City/Neighborhood	1970			1980			
	Median Income	% of City	% of SMSA	Median Income	% of City	% of SMSA	Percent Change 1970/1980
Baltimore, MD							
SMSA	$10,577	120.0	100.0	$19,015	121.0	100.0	79.8
City	8,815	100.0	83.3	15,721	100.0	82.7	78.3
Patterson Park (1974)*	8,083	91.7	76.4	12,554	79.8	66.0	55.3
Govans (1978)	7,560	85.8	71.5	14,424	91.7	75.9	90.8
Bridgeport, CT							
SMSA	$11,755	119.4	100.0	$23,042	138.0	100.0	96.0
City	9,849	100.0	83.8	16,694	100.0	72.4	69.5
Upper East Side (1975)	6,937	70.4	59.0	9,423	56.4	40.9	35.8
South End (1980)	5,903	59.9	50.2	8,448	50.6	36.7	43.1
Buffalo, NY							
SMSA	$10,430	118.5	100.0	$17,290	112.0	100.0	65.8
City	8,804	100.0	84.4	15,432	100.0	89.2	75.3
Ken Bailey (1975)	10,324	117.3	99.0	13,643	88.4	78.9	32.2
S. Buffalo (1979)	9,380	106.5	89.9	15,781	102.3	91.3	68.2
Broadway/Fillmore (1979)	7,576	86.0	72.6	7,956	51.6	46.0	5.0
Masten (1979)	8,453	96.0	81.0	11,745	65.9	58.8	38.9
Black Rock (1979)	8,500	96.5	81.5	10,165	76.1	67.9	19.6
West Side (1979)	7,898	89.7	75.7	9,410	61.0	54.4	19.1
Chicago, IL							
SMSA	$11,931	116.5	100.0	$20,771	110.6	100.0	74.1
City	10,242	100.0	85.8	18,776	100.0	90.4	83.3
Near Northwest (1975)	9,390	91.7	78.7	12,352	65.8	59.5	31.5
Heart of Chicago (1975)	9,136	89.2	76.6	13,770	73.3	66.3	50.7
Central Austin (1975)	10,539	102.9	88.3	13,424	71.5	64.6	27.4
W. Englewood (1975)	9,931	97.0	83.2	13,428	71.5	64.6	35.2
Litte Village (1978)	8,691	84.8	72.8	15,147	80.7	72.9	74.3
West Humboldt (1981)	9,626	94.0	80.7	13,117	69.9	63.2	36.3

[1] Source: Bureau of the Census

*The data in parenthesis is the organization date of the NHS neighborhood.

503

Median Income Data

City/Neighborhood	1970 Median Income	1970 % of City	1970 % of SMSA	1980 Median Income	1980 % of City	1980 % of SMSA	Percent Change 1970/1980
Cincinnati, Ohio							
SMSA	$10,257	115.3	100.0	$18,030	107.3	100.0	75.8
City	8,894	100.0	86.7	16,800	100.0	93.2	88.9
Madisonville (1972)*	8,872	99.8	86.5	13,384	79.7	74.2	50.1
Evanston (1979)	8,170	91.8	79.6	12,536	74.6	69.5	53.4
Carthage (1981)	8,944	100.6	87.2	12,257	73.0	68.0	37.0
Dallas, Texas							
SMSA	$10,405	103.8	100.0	$18,882	95.8	100.0	81.5
City	10,019	100.0	96.3	19,704	100.0	104.4	96.7
Love Field (1973)	7,969	79.5	76.6	12,669	64.3	67.1	59.0
Trinity Heights (1978)	6,412	64.0	61.6	11,206	56.9	59.3	74.8
Mt. Auburn (1978)	8,534	85.2	82.0	11,911	60.4	63.1	39.6
Kansas City, Missouri							
SMSA	$10,568	115.3	100.0	$19,022	94.9	100.0	80.0
City	9,165	100.0	86.7	20,034	100.0	105.3	118.6
49-63 (1974)	9,530	104.0	90.2	14,478	72.3	76.1	51.9
Center City (1979)	7,980	87.1	75.5	10,230	51.1	53.8	28.2
Minneapolis, Minnesota							
SMSA	$11,682	117.3	100.0	$20,739	105.1	100.0	77.5
City	9,960	100.0	85.2	19,737	100.0	95.2	98.2
Southside (1976)	9,000	90.4	77.0	13,652	69.2	65.8	34.1
Northside (1980)	9,500	95.4	81.3	13,465	68.2	64.9	41.7
Regina (1980)	9,095	91.3	77.8	20,040	101.5	96.6	120.3
Nashville, Tennessee							
SMSA	$ 9,187	96.9	100.0	$16,820	86.8	100.0	83.1
City	9,484	100.0	103.2	19,366	100.0	115.1	104.2
Waverly-Belmont (1975)	8,120	86.6	89.4	13,055	67.4	77.6	60.8
East Nashville (1980)	7,674	80.9	83.5	12,342	63.7	73.4	60.8

*The data in parenthesis is the organization date of the NHS neighborhood.

Median Income Data

City/Neighborhood	1970 Median Income	1970 % of City	1970 % of SMSA	1980 Median Income	1980 % of City	1980 % of SMSA	Percent Change 1970/1980
St. Paul, Minnesota							
SMSA	$11,682	110.8	100.0	$20,739	100.0	100.0	77.5
City	10,544	100.0	90.2	20,743	100.0	100.0	96.7
Merriam park (1976)*	10,802	102.4	92.5	18,537	89.4	89.4	21.6
Deyton's Bluff (1980)	9,861	93.5	84.4	14.560	70.2	70.2	47.7
Westside (1980)	9,224	87.5	79.0	14,231	68.6	68.6	54.3
Washington, D.C.							
SMSA	$12,933	135.0	100.0	$23,548	123.3	100.0	82.1
City	9,583	100.0	74.1	19,099	100.0	81.1	99.3
Anacostia (1972)	7,679	80.1	59.4	14,356	75.2	60.9	87.0
BEE (1980)	8,558	89.3	66.2	14,328	75.0	60.8	67.4

*The data in paranthesis is the organization date of the NHS neighborhood

Attachment C-1

PROBLEM PROPERTIES STRATEGIES

PROGRAM GOALS

Problem Property Strategies assist NHS programs in addressing specific problem areas beyond the scope of basic NHS services and typical financial resources. Problem properties vary among neighborhoods but frequently include vacant or abandoned houses, low percentages of homeownership, poorly maintained rental properties, vacant lots, and a lack of affordable quality rental housing. Through the implementation of various problem properties strategies, NHS programs, with assistance from Neighborhood Reinvestment, are able to promote confidence and renewed enthusiasm in the neighborhood, assist tenants to purchase, improve the physical conditions of target blocks, eliminate vacant neighborhood eyesores, and stimulate private reinvestment and new conventional mortgages in the NHS community.

METHODS OF ACHIEVEMENT

Rehabilitation and Sale Program allows a local NHS to purchase blighted vacant houses, rehabilitate them, and then sell the property to a new owner-occupant.

Home Ownership Promotion focuses on a marketing program that improves the image of the neighborhood and attracts new owners. These new owners may be current neighborhood tenants or new entrants to the neighborhood. The NHS provides pre-purchase counseling, rehab assistance and financing options. Neighborhood residents who identify target properties and potential buyers are key to this program's success.

Tenant Conversion assists existing neighborhood residents in purchasing either the home they presently rent or a nearby home in the NHS neighborhood. A tenant advisor assists families to find homes to purchase within the neighborhood and works with them to obtain financing and to address rehabilitation needs. NHS programs have discovered a large pool of stable renters with excellent rent payment histories who have the ability and desire to become homeowners. With the help of NHS counseling and flexible financing, these renters have been able to become homeowners, many for the first time. Using this approach, undermaintained problem properties owned by absentee landlords can also be upgraded.

The principal participant groups and operational elements involved in a Problem Property Strategies program include the following:

- Neighborhood Residents direct the program and contribute to marketing strategies that describe their neighborhood in a realistic, positive way.
- Lenders contribute their technical knowledge and provide both construction and permanent financing.
- Local Government Representatives provide diagnostic housing and building inspections; acquire properties

and/or convey government-held dwellings to the NHS; forgive back taxes to make acquisition affordable; and provide public improvements. In many instances, local governments also provide financial resources to make the program affordable to low-income occupants.

- The NHS Revolving Loan Fund is often available to unbankable clients who wish to purchase and/or rehabilitate previously vacant or rental houses.
- The NHS Staff administers and manages the program.

ACCOMPLISHMENTS

Through FY 1986, 39 Problem Property Strategies programs were initiated. These programs are located in:

Atlanta, Georgia
Aurora, Illinois
Baltimore, Maryland
Boise, Idaho
Boston, Massachusetts
Bridgeport, Connecticut
Burton, Michigan
Charleston, South Carolina
Chelsea, Massachusetts
Clearwater, Florida
Cleveland, Ohio
Columbus, Ohio
Denver, Colorado
Gainesville, Florida
Great Falls, Montana
Jacksonville, Florida
Jamaica, New York
Kenosha, Wisconsin
Knoxville, Tennessee
Lawrence, Massachusetts
Newark, New Jersey
Norwalk, Connecticut
Pasadena, California
Philadelphia, Pennsylvania
Pittsburgh, Pennsylvania
Providence, Rhode Island
Reading, Pennsylvania
Rochester, New York
Shreveport, Louisiana
South Bend, Indiana
Springfield, Massachusetts
St. Petersburg, Florida
Syracuse, New York
Toledo, Ohio
Trenton, New Jersey
Tucson, Arizona
Waterbury, Connecticut
West Side (St. Paul), Minnesota

In FY 1936 an additional four programs are planned.

As a result of the Prudential's social investment of $5 million in the national NHS secondary market administered by NHSA, NHSs have now utilized below money market for first mortgages. This resource has enabled more NHSs to include problem properties in their neighborhood revitalization strategies.

IMPACT HIGHLIGHTS

In Trenton, Walnut Street had a terrible reputation. It contained 10 vacant houses which were used to sell and use drugs. The NHS took on an ambitious project to acquire and rehab those vacants and provide rehab services to the remaining homeowners.

Three of the ten properties had to be demolished and NHS then acquired the remaining seven properties from the city at a nominal cost. The houses were rehabbed and then sold to first time buyers.

In order to accomplish its program goals, Trenton NHS was able to utilize special funds from the city for rehabilitation. The New Jersey Housing and Mortgage Finance Agency then provided first mortgage money at 11%.

The impact on the real estate market was incredible. The value of properties have increased from $17,500 in 1983 to almost $30,000 in 1985. The residents have developed an active block club and crime is essentially non-existent.

With the success on Walnut Street, Trenton NHS has been asked by the city to undertake a phase II and phase III on surrounding streets.

The success of this project can be summarized by the following comments made by a new homeowner on Walnut Street. "For the first time I have a window in my kitchen and a wall full of cabinets, it's so wonderful... I just love it; I'll be here for the rest of my life."

NHSs with Problem Properties Strategies focusing on conversion of tenants to homeowners have rehabilitated an average of 20 to 25 houses per neighborhood, with an average neighborhood total value of about $418,000. Throughout the process, 40 to 75 potential new homeowners, on average, are counseled in each neighborhood.

NHSs with strategies which focus on rehabilitation and sale of vacant houses have averaged about six houses per neighborhood, with an average total value of $180,000 per year. Though directly related spin-off reinvestment by residents in target areas is evident, this is difficult to separate from the overall impact of the NHS.

Attachment C-2

HOUSING DEVELOPMENT STRATEGIES
OWNER-BUILT HOUSING

PROGRAM GOAL

The program addresses shortages of affordable, quality housing available to lower to moderate income families in NHS neighborhoods, at the same time as it addresses the blighting effect of vacant properties. This exciting program enlarges home ownership opportunities in NHS neighborhoods by helping families to collectively build or rehabilitate their own homes. Supervision, coordination, and technical assistance are provided by the NHS. The initial demonstration project in the NHS neighborhood in Oakland, California was developed in 1980. It involves fourteen families who invested 40 labor hours per family each week for a period of nearly a year. This investment enabled each family to assume a conventionally-financed $45,000 mortgage on a home with an estimated market value of over $85,000. Fourteen trash-strewn, city-owned lots were, at the same time, converted from community eye-sores to community highlights.

METHODS OF ACHIEVEMENT

Although successful experiences have helped to formalize the Owner Built Housing project, the program remains a local effort. It is shaped in each community by the NHS board of directors, committees and staff to reflect local needs, interest and resources.

Local Owner Built Housing Advisory Committees often include architects, city representatives, representatives of the building trade, and lenders, as well as neighborhood residents and other NHS participants. Family associations are also formed, creating a forum for team-building, goal-setting and discussion of shared goals among Owner builder families.

The local NHS provides the management for the Owner Built process. In meeting the challenge, NHS programs:

- o Select vacant sites or vacant buildings in the NHS neighborhood which are affordable and amenable to construction;
- o Acquire land through negotiation with the city or private owners;
- o Marshall loan resources for construction financing, for which the NHS serves as borrower, and permanent financing, which the families assume once construction is complete;
- o Recruit qualified and committed local families through a widespread marketing campaign and sensitive financial counseling;
- o Provide professional, on site construction training for owner builder families; and

- Provide comprehensive supervision and quality inspection services throughout the construction process.

Owner Built Housing now includes rehabilitation of vacant abandoned buildings. The St. Louis NHS program has undertaken the tremendous chance of rehabilitating the ten vacant, historical, brick, single-family detached houses in the Hyde Park neighborhood of St. Louis. The families work a minimum of 35 hours per week to rebuild the framing, drywall, and masonary and to upgrade the electrical, plumbing, and heating systems. Their mortgages will vary depending on the size of the house they will ultimately own. St. Louis NHS is currently planning a second phase to include an additional ten units. In keeping with Owner Built Rehabilitation, Phoenix NHS plans to move ten single-family detached houses into the NHS neighborhood. These homes were slated for demolition to make room for the new freeway. The houses will be cooperatively rehabilitated by owner builders primarily recruited from the NHS neighborhood.

HIGHLIGHTS AND ACCOMPLISHMENTS

This construction method of families building their own homes has been replicated in Santa Ana, California; Salt Lake City, Utah; Hartford, Connecticut; Nashville, Tennessee; Clackamas County, Oregon; Anchorage, Alaska; Pueblo, Colorado; Durham, North Carolina; Minneapolis, Minnesota, Stamford, Connecticut.

In FY85, new developments were initiated in San Bernardino, California; Cincinnati, Ohio; Pittsburgh, Pennsylvania; Boston, Massachusetts; St. Louis, Missouri and Phoenix, Arizona. Another four developments will be initiated in FY86, bringing the number of Owner Built Housing programs to a total of 20 operating in major cities throughout the country.

IMPACT

Approximately 552 people have been housed by Owner Built Housing developments throughout the country, and 231 units are projected over the next few years.

Attachment C-4

NEIGHBORHOOD COMMERCIAL REVITALIZATION STRATEGIES

PROGRAM GOALS

The Neighborhood Commercial District Revitalization program is designed to establish the long term viability of neighborhood commercial districts through the adoption and implementation of a partnership development strategy which balances the objectives of the neighborhood with the demands of the local marketplace. The commercial program complements the core service residential strategies of NHS by reversing the negative images frequently associated with marginal urban commercial areas and improving the quality of goods and services available to neighborhood residents. With the assistance of Neighborhood Reinvestment, NHS corporations have employed unique and creative approaches to the complex problems facing neighborhood business districts, including:

- Elimination or control of negative environmental conditions, such as crime or sanitation problems which inhibit commercial activity and reflect poorly on neighborhood image;
- Attraction of appropriate new commercial and residential development to meet the needs of the neighborhood (i.e. jobs, goods/services) while ensuring the long term viability of the district;
- Improvement in the physical conditions to create attractive and functional commercial areas;
- Preservation and enhancement of residential units, both within and abutting the commercial area;
- Adaptive reuse of non-viable commercial properties;
- Creation of permanent management vehicles to guide current activity and future development in the commercial area.

METHODS OF ACHIEVEMENT

The Neighborhood Commercial District Revitalization program utilizes the existing NHS partnership, expanded to include the local merchant community, to undertake a development process which blends private sector commercial development technology with the unique strength of the NHS partnership development approach. The process has as its focus the identification of a development strategy which incorporates the objectives of the neighborhood with existing market opportunities and the resources available for revitalization. Steps in the process include the organization of a vested partnership; the development of goals/objectives; the analysis of physical, socioeconomic and market characteristics to identify development opportunities and constraints; the adoption of a development strategy which blends objectives with opportunities and resources; and the solicitation of commitments from all members of the partnership to invest in accordance with the neighborhood development strategy.

Based upon the experience of the NHS network and the early efforts of the Urban Reinvestment Task Force, each NHS adopts a strategy tailored to the unique characteristics of the local neighborhood to deal with the following components of successful commercial development:

- Business attraction/expansion to establish the most competitive commercial mix and improve the quality of goods and services;
- Image enhancement including design, marketing and promotional activities to firmly establish an image of quality for the district and the neighborhood;
- Property rehabilitation/real estate development to upgrade viable commercial properties and identify alternative uses for unwarranted commercial space;
- Public improvements designed to accent private reinvestment and enhance the image and accessibility of the commercial area;
- Management of the commercial district to ensure permanent maintenance of physical and environmental conditions and secure the long term competitive position of the commercial area.

ACCOMPLISHMENTS/IMPACT

Neighborhood Commercial District Revitalization programs have made substantial impact on commercial districts in NHS neighborhoods in Atlanta, Georgia; Kansas City, Missouri; Bridgeport, Connecticut; Niagara Falls, New York; Brooklyn, New York; Anchorage, Alaska; Cattaraugus County, New York and South Portland, Maine. Their success has generated new confidence and awareness in the NHS network, resulting in 22 requests for commercial assistance in FY85 and new program developments in Shreveport, Louisiana; Hartford, Connecticut; Baltimore, Maryland; Richmond, Virginia; Kenosha, Wisconsin and Buffalo, New York.

Over the course of the past 3 years, over $37 million dollars of local public and private reinvestment has been directly leveraged by the seven (7) active NHS commercial programs. In the more mature programs, renewed confidence in the neighborhood market has generated indirect reinvestment far in excess of that amount, as the private market responds and the partnership effort shifts to managing the revitalized area.

The neighborhood impact generated by this reinvestment has been substantial, ranging from dramatic improvements in business conditions to the elimination of seemingly overwhelming crime and image concerns. Representative of these improvements are the following highlights:

- Anchorage . . . In only one year the NHS has generated over $20 million in reinvestment, firmly established the neighborhood as a key participant in a major road improvement project and dramatically altered the image of the unique Spenard commercial district.
- Atlanta . . . $5.7 million in reinvestment activity, a dramatic increase in occupancy rates (from 50% to 98%), sales volumes (up 20%), and property values (up 300%) and a dramatically improved image

clearly signal the successful revitalization of the West End commercial district.

- Bridgeport, Connecticut . . . Over $2.3 million in reinvestment, including the substantial expansion ($750,000) of a minority grocer as the anchor convenience goods tenant, the establishment of a LISC sponsored $7.5 million Revolving Loan Fund and commitment to rehabilitate two major mixed-use buildings on the East Main corridor (est. cost $1.5 million) mark the considerable impact of programs here.

- Brooklyn, New York . . . The eviction of 8 drug and gambling storefront outlets, initiation of merchant security and sanitation programs, and a series of highly successful promotional events have contributed significantly to revitalizing this area.

- Buffalo, New York . . . Over $1.3 million has been reinvested in the Kensington-Bailey neighborhood commercial district, complemented by the passage of legislation to create a Business Improvement District generating $35,000 annually to manage the ongoing revitalization of the area.

- Kansas City, Missouri . . . Over $3.8 million in commercial reinvestment has dramatically altered the image of the Troust Avenue commercial district.

- Niagara Falls, New York . . . Nearly $3.1 million in commercial reinvestment, complemented by the construction of two active gateway parks, has firmly reestablished the image of the district as a viable ethnic commercial corridor.

- South Portland, Maine . . . In less than one year the NHS has leveraged commitments for $750,000 in public improvements and nearly $1.5 million in private reinvestment in this mixed-use commercial district.

Attachment C-5

INSURANCE INDUSTRY FULL PARTNERSHIP PROGRAM

PROGRAM GOALS

The Insurance Industry Full Partnership Program was developed in response to difficulties NHS residents were having in securing voluntary insurance and the impact of this on the NHSs' abilities to rebuild confidence in their neighborhoods. The Insurance Industry Full Partnership program is designed to strengthen the delivery of voluntary residential insurance services in the neighborhood as well as to involve the local insurance industry in the financial and managerial support of the NHS at a level comparable to that of the banks and savings and loans.

METHODS OF ACHIEVEMENT

Creation of an NHS-Insurance Industry Full Partnership Program entails nine months of workshop and committee work. This process brings together, usually for the first time, senior company officers, local company underwriters, agents, residents, lenders, city representatives, and NHS staff. For most insurance representatives it is the first time they actually walk through the neighborhood and understand how a neighborhood begins to turn around. Usually it is the first time a city code official and an underwriting manager have the opportunity to discuss and recognize the similarity between company underwriting criteria and city code requirements. For residents, it is the first time they have been given detailed information concerning industry operations, structure, and limitations. The ensuing dialogue provides an important base for insurance representatives to develop new products, marketing strategies, and eligibility criteria. Through service on committees, the groups work together to develop specific proposals concerning:

- How the delivery system can be strengthened in order to assure residents access to, and service by, agents;
- The need for additional forms of insurance coverage which would be responsive to residents' needs;
- In light of NHS efforts, the criteria which need to be met in order to be eligible for particular forms of coverage;
- The roles NHS can play in facilitating education and communication among companies, agents, and residents;
- The level of financial and management support the industry can provide to the NHS's operation.

Based upon the development of this pilot project in Chicago and replication in eleven additional cities, we have found the basic components of this program to be:

- An in-house NHS Insurance Coordinator who provides outreach, one-on-one counseling to residents, and general assistance through the process of securing coverage and settling claims in the voluntary market, reducing the need for the Fair Plan in the NHS neighborhood.
- Communications to company underwriters and agents regarding their desire to service NHS neighborhoods.
- A list of agents who are familiar with the neighborhood and are able to provide good service.
- Company liaisons who know the neighborhood and can assist in the placement of insurance should any difficulties arise.
- The availability of a full range of coverages by standard carriers which will respond to the needs of NHS residents.
- Recognition of the similarity between general industry underwriting criteria and city code requirements, thus, homes which are up to code will in most cases meet general industry underwriting criteria.
- Industry representation on the NHS board and committees.
- Industry participation in the financial support of the NHS at a level comparable to that provided by the banks and savings and loans.

IMPACT

In the past six years, as a result of their participation in the creation of NHS Insurance Industry Full Partnership programs, a number of companies have developed and tested new forms of coverage to address the insurance needs of urban homeowners such as: properties with a substantial discrepancy between market and replacement values; sound properties adjacent to vacant and/or poorly maintained rental buildings; and vacant properties undergoing substantial rehabilitation. The NHS strategy of coordinated reinvestment on a block-by-block approach has provided companies with the environment in which they can test these coverages.

The companies' commitments to NHS is also reflected in financial commitments to NHS partnerships in the form of contributions and social investments. Company contributions to NHS Full Partnership programs have totaled over $3.2 million to date.

These industry-wide contributions have enabled the 22 local Insurance Full Partnership programs to enhance services in their neighborhoods, and special challenge grants from the St. Paul Companies and Allstate have allowed the Twin Cities and Chicago NHSs to expand their programs to additional neighborhoods.

Equitable, Prudential, Allstate, Aetna Life & Casualty, Employers of Wausau, and Mutual Benefit Life Insurance Company have also recognized that the NHS neighborhood offers sound investment opportunities. They have made commitments totaling $22.5 million to NHSs through social investments in the NHS secondary market, which is administered by NHSA. In recognition of the more than 130 insurance companies that contributed to revitalizing neighborhoods, the Neighborhood Reinvestment Corporation joined with Neighborhood Housing Services of America and the local Neighborhood Housing Services partnerships to thank the insurance industry at the 1983 annual meeting of the American Council of Life Insurance.

As a result of the 1984-85 profit squeeze in the property-casualty insurance industry, no new Insurance Full Partnership developments were undertaken in fiscal 1985. Development work underway in five Greater Los Angeles NHSs was continued as was the provision of assistance to the 22 organized NHS-Insurance Full Partnership programs in maintaining their current levels of insurance industry support (which now includes over 80 insurance companies). In anticipation of profit margins in the property-casualty lines improving, an additional Insurance Full Partnership program may be initiated during fiscal 1986.

Attachment D

NEIGHBORHOOD HOUSING SERVICES OF AMERICA, INC.

Neighborhood Housing Services of America, Inc. (NHSA) was established as a private nonprofit, state-chartered, tax-exempt corporation in 1974. It gives added private sector strength to the NHS programs, and, through a unique secondary market, gives the NHS programs access to the private investor market as a resource for replenishing their loan funds.

It was anticipated in NHSA's formation that this and other activities to meet common needs of the NHS programs would be carried out by NHSA in cooperation with Neighborhood Reinvestment. This approach has been effective and its continuation was authorized in the enabling legislation for Neighborhood Reinvestment:

> "The Corporation (Neighborhood Reinvestment) shall continue the work of the Urban Reinvestment Task Force in supporting Neighborhood Housing Services of America, a nonprofit corporation established to provide services to local neighborhood housing services programs, with support which may include technical assistance and grants to expand its national loan purchase pool, and may contract with it for services which it can perform more efficiently or effectively than the Corporation."

NHSA is a California corporation headquartered in Oakland, California. It currently operates with a staff of 20 persons. The staff was organized to contain all the staff and partnership skills involved in the NHS programs -- financial, community, and governmental processes -- and, on the basis of these skills, is able to make contributions to many aspects of Neighborhood Reinvestment's work related to NHS operations.

NHSA's boards of directors and trustees include volunteers representing the same resident-city-business and financial industry partnership which is the foundation of all the NHS programs, therefore, the NHSA board may function as a resource board for the NHS programs.

SECONDARY MARKET OPERATIONS

Because NHS revolving loan funds are designed to meet the needs of low income people, repayment schedules must be extended over several years to meet the borrower's ability to pay. Thus, the funds revolve slowly. There is a need for an infusion of new capital to ensure that the revolving loan funds keep pace with each program's ability to upgrade its neighborhood. Just as savings and loan associations and banks need a secondary market to which they can sell loans to replenish their ability to make new loans, the NHS programs also need a secondary market for their revolving loan funds.

To provide a mechanism for the continued flow of revolving loan dollars into NHS neighborhoods, NHSA created a loan purchase pool to serve as an interim secondary market for the purchase of loans from local NHS programs. Annual contributions averaging $480,000 per year from the Neighborhood Reinvestment Corporation provided capital to set up and operate the loan purchase pool. In the meantime, NHSA secured the first buyer to change the character of the loan purchase pool into a true secondary market.

The buyer was The Equitable Life Assurance Society of the United States. In 1978, Equitable signed a loan purchase agreement for $1 million in ten-year notes at a below market rate of 8-1/2 percent and later agreed to buy an additional $2 million worth of notes.

In 1982, The Prudential Insurance Company of America entered into a note purchase agreement of $5 million in 25-year notes at a below-market rate of 9-1/2 percent for a First Mortgage Loan Purchase Program. The Prudential commitment is earmarked to those "problem properties" that escape the routine NHS upgrading procedures to which most homeowners respond. Strategies to address these properties include the purchase and rehabilitation of vacant houses, infill construction of new homes on vacant lots, and purchase, rehab and sale, or rental of blighted properties.

In 1982, the Wausau Insurance Companies entered into an agreement to purchase $500,000 of NHSA notes. In 1983, Aetna Life & Casualty entered into an agreement to purchase $4 million of NHSA notes. In 1984, Allstate Insurance Companies and Mutual Benefit Life Insurance Company entered into agreements to purchase notes of $4 million and $1 million, respectively. In 1985, the Metropolitan Life Foundation entered into an agreement to purchase $5 million in NHSA notes.

Experience to date in the purchase of loans for the secondary market has resulted in 103 NHS revolving loan funds receiving over $18 million to replenish their lendable funds. This early experience has also served to develop a workable, dependable mechanism for the NHS secondary market social investments which are needed to assist over 200 local partnerships in upgrading urban neighborhoods across the nation.

The NHSA secondary market is designed to provide substantial assurance to the social investors that NHSA can meet the financial requirements due under any Note Purchase Agreement. The built-in features have worked well in practice since the first note was issued to The Equitable Life Assurance Society of the United States in November, 1978.

NHS mortgages and a cash fund or securities are held by a bank trustee for the benefit of the note purchaser to assure timely payment of principal and interest on the NHSA notes. As further security, when any loan being used as collateral for this indebtedness becomes 90 days delinquent, a non-delinquent loan is substituted for it. NHSA replaces the delinquent loan from its portfolio and then, under its agreement with the local NHS, the delinquent loan is returned to the NHS and another non-delinquent loan is forwarded to NHSA.

Servicing of the NHS loans which serve as collateral for the NHSA notes remains with the local NHS. Payments are forwarded to NHSA monthly. NHSA forwards payments to the trustee quarterly. The trustee holds the payments in a "Payment Fund" which is utilized to meet the quarterly payments due on the notes issued by NHSA under the Note Purchase Agreement.

The experience to date has shown no need to use any of the guarantee funds which were set aside to cover delinquencies. This is due to two factors: the NHSs make every effort to offer NHSA loans which they believe will not require substitution; and where substitutions are needed, there has been full cooperation. The need for substitution has been minimal, averaging about five loans per quarter and totaling, as of December, 1985, only 195 loans over the nine and one quarter year period of operations. During this time, over 1,778 loans totaling $18,222,304 have been purchased by NHSA.

One important reason that the secondary market operations are so successful is that the NHS loans are made at the ability of the borrower to repay. The interest rates on the NHS loans range from zero percent to the market rate. NHSA purchases the NHS loans at par and seeks a balanced offering of loans with an average rate and term which approximate the average rate and term of the NHS's overall loan portfolio. This has resulted in NHSA loan purchases which average a 6.17 percent interest rate and an eleven year term for home repair loan purposes, and a 9.65 percent interest rate and 20 year term for first mortgage loans on problem properties. The loans were made to NHS clients with a median household income of $12,564 per annum.

In October 1984, a pilot $25 million Master Commitment Purchase Contract was signed between the Federal National Mortgage Association and Neighborhood Housing Services of America, representing the Association's first purchase of apartment rehabilitation loans. The agreement was triggered by a $5 million commitment from the Metropolitan Life Foundation to the NHS secondary market, as well as a $200,000 interest free loan as the first step of a plan to revitalize thousands of lower-income apartment units across the country.

The $5 million dollar Metropolitan Life Foundation Fund breaks new ground in the secondary market operations of NHSA. By combining a reduced interest rate note with an early payout schedule, the Metropolitan Life Foundation substantially reduced NHSA's cost of funds, thereby reducing the amount of subsidy required. This is a roughly equivalent to an additional contribution of $500,000.

FINANCIAL DEVELOPMENT

During fiscal year 1985, Neighborhood Housing Services of America intensified its focus on the top priority concern of the National NHS Advisory Council representing the individual NHSs. The priority goal of the financial development effort is to expand the base of private sector support of the operating budgets of Neighborhood Housing Services programs throughout the country. A further goal is to develop the resources needed for the NHSA secondary market to address the liquidity needs of NHS revolving loan funds, on a last resort basis, for the balance of the 1980's.

Social Investment Campaign for the Secondary Market

To fund the secondary market, insurance companies enter into Note Purchase Agreements with NHSA to purchase notes backed by NHS loans. The notes are purchased by social investors at below-market rates, currently averaging 9.28%, and are normally at 12-year terms. NHSA purchases loans from NHSs with the proceeds. Because the payment stream from the NHS loans is based on an average six percent interest rate and different terms than NHSA's notes, NHSA must raise grant funds to make up the difference between NHS loan proceeds and NHSA's quarterly note payments. These contributed dollars also help cover the program costs of operating the Secondary Market.

The social investors "give up" the difference between the below-market rate they receive and the market rate they would have received through their normal investment opportunities. This give-up is formally calculated by social investors and typically is made against an established charitable budget managed by social investment departments or the company's corporate foundation. In the 1985 market, the present value of charitable give-up was in the range of $150,000 per million dollars in notes purchased.

Insurance companies have emerged as the predominant social investors as they have seen the local programs' need for risk capital which cannot be sufficiently obtained through normal lending or gifts. Most are "full partners" in NHS programs with executive volunteers serving on as many as 35 local boards of directors. Individual insurance companies provide as much as $150,000 per year in operating budget support of local programs. Knowledge gained through their direct involvement has helped them to recognize the nature of NHS needs, the importance of social investment support, and the soundness of the secondary market approach to serve the entire network of NHS organzations in a fair and equitable manner.

As of September 30, 1985, active agreements with eight companies totaling $22.5 million were in place. Most anticipate renewals as needed. These agreements represent well over four million dollars in charitable interest give-up. Work will continue in an effort to gain renewals and participation of other companies. Several discussions are moving positively toward potential new commitments totaling five to seven million dollars.

LEADERSHIP ENLISTMENT

NHSA's Board of Trustees, is composed of executives of major corporations. The following individuals are members of the Board of Trustees: Mr. Charles E. Lord, Senior Consultant, Dillon, Read and Company, Inc.; as Chairman, Mr. Donald F. Craib, Jr., Chairman and Chief Executive Officer, Allstate Insurance Group; Mr. Robert R. Dockson, Chairman, CalFed Inc.; Mr. William P. Madar, Jr., Corporate Executive Vice President, The Standard Oil Company; and Mr. Leland S. Prussia, Chairman, BankAmerica Corporation. The Trustees are obtaining leadership gifts for the secondary market program and enlisting local leadership to assist local NHS fundraising efforts.

Leadership gifts have been approved by The Standard Oil Company (Ohio) and the Atlantic Richfield Company Foundation (ARCO). The Sohio gift was $750,000 over three years, and the ARCO gift was $300,000 for 1984, with $75,000 for purposes outside the secondary market. The Levi Strauss Foundation approved a gift for $200,000; $150,000 has been disbursed with the remaining $50,000 designated for FY86. The William Penn Foundation approved a gift for $200,000 and the Ahmanson Foundation has promised a gift of $100,000. A one million dollar, zero-interest loan by the BankAmerica Foundation and a $200,000, zero-interest loan by the Metropolitan Life Foundation provided new funds for secondary market activities. These funds helped capitalize the loan purchase activity and leverage new agreements.

CREATING THE PROPER ENVIRONMENT FOR NHS FUNDRAISING

Heightening private sector awareness of NHS and its importance to the health of particular communities and the nation as a whole is critical to the ability of local NHSs to succeed in local campaigns, and to ensure success of the secondary market fundraising.

Four advertisements were produced and mailed to 3,300 business press outlets in the spring of 1984. They featured the following Chief Executive Officers and their companies as examples of companies which have made significant contributions to local NHS programs, encouraging support from other companies: Mr. Theodore A. Burtis, Chairman and Chief Executive Officer of Sun Company, Inc.; Mr. Calvin Shipley Hatch, Chairman and Chief Executive Officer of Clorox Company; Mr. Alton Winslow Whitehouse, Jr., Chairman and Chief Executive Officer of The Standard Oil Company (Ohio); and Mr. John J. Creedon, President and Chief Executive Officer of Metropolitan Life Insurance Company.

The Advertising Council business press campaign was expanded and localized to include chief executive officers of major corporations in additional NHS cities.

NATIONAL NHS WEEK

The NHSA Board voted to attempt another important step in heightening public awareness of NHS: Congressional designation of a National NHS Week. The legal and accounting actions necessary to undertake such an effort were taken and the campaign was launched as a coordinated endeavor of all the NHS organizations. Co-sponsorship of 25 Senators and 218 Repreentatives was sought and exceeded, given the responsiveness of the Congress to its constitutents and the long history of strong Congressional support of NHS. The Joint Resolution was passed in June and the Bill was signed into law designating the week of October 7, 1984, as National Neighborhood Housing Services Week.

Passage of the NHS Week commemorative action is required for five consecutive years before the week can be made permanent. The network of local NHS programs is pursuing such permanent status for their week and NHSA is again providing coordination and technical support, resulting in the introduction of HJ Resolution 492 calling for presidential proclamation of National NHS Week beginning June 1, 1986.

Attachment E

NEIGHBORHOOD PRESERVATION PROJECTS

PROGRAM GOALS

The goal of Neighborhood Preservation Projects is to seek out promising strategies and new tools for reversing factors causing neighborhood decline.

These new tools enable NHSs to deal with the tightening rental market, more distressed neighborhoods, neighborhoods with higher proportions of renters and apartment buildings, more blighted buildings, scattered vacant lots, blighted commercial areas, etc.

METHODS OF ACHIEVEMENT

The goal of Neighborhood Preservation Projects (NPP) is achieved by a three-part process:

1. Identification and selection of promising projects,
2. Monitoring and evaluation, including the documentation of results
3. Packaging of the model for replication.

ACCOMPLISHMENTS

The following programmatic components, replicated by many NHSs, were once successful Neighborhood Preservation Projects. Through FY 1985 these have included:

Apartment Improvement Program (AIP) - from the City of Yonkers, New York, Apartment Building Rehabilitation Project.

Neighborhood Conservation Services (NCS) - from the Berkeley, California, Pilot Development and Marketing Project.

Problem Properties Strategies - from the Jamaica Plain (Boston, Massachusetts) Vacant Housing Renovation Project; City of Baltimore 26(h) Project; Baltimore Tenant Conversion Project; NHS Rehab Training Project (Denver, Colorado); Stop Wasting Abandoned Properties (Providence, Rhode Island) Project.

Statewide NHS Foundation - from the California NHS Foundation.

Owner-Built Housing - from the Elmhurst NHS (Oakland, California) Owner-Built Housing Project.

Energy Conservation - from the Elmwood NHS (Providence, Rhode Island), Ferry Village NHS (South Portland, Maine), and Salt Lake NHS (Salt Lake City, Utah) Energy Conservation Projects.

Neighborhood Commercial Management - from nine separate projects in the following cities: Toledo, Ohio; Cleveland, Ohio; Philadelphia, Pennsylvania; Portland, Oregon; Baltimore, Maryland; Chicago, Illinois; Atlanta, Georgia; and Bridgeport, Connecticut.

NHS Micro-Computer Management Systems - from an eight site computer project in the following NHSs: Chicago, Illinois; Fort Worth, Texas; Ithaca, New York; Jersey City, New Jersey; Kansas City, Missouri; New York, New York; Phoenix, Arizona; and, Quincy, Massachusetts.

In FY 1986, goals include the selection of 15 new research projects, and the monitoring of a total of 30 ongoing projects.

CURRENTLY FUNDED DEMONSTRATION PROJECTS

New Construction In Older Neighborhoods

Strategies to construct new single-family housing for current neighborhood residents have been undertaken in Chicago and New Haven.

Neighborhood Rental Resources

Neighborhood-controlled rental resources involves rehabilitation, management and ongoing maintenance of properties to serve low and moderate income renters as demonstrated by the Ithaca NHS/Rental Rehab Project in Ithaca, New York.

Property Management Strategies

Property management services stabilize apartment buildings by bringing sophisticated management, financial analysis and maintenance services to residents and owners. This project was demonstrated by the Anaheim AIP Property Owner & Tenant Multi-Family Management Project in Anaheim, California.

Energy Conservation

This programs integrates energy conservation techniques into neighborhood housing rehabilitation programs as demonstrated in Ithaca, New York.

Neighborhood Stabilization Maintenance

In this effort, the NHS staff enhances the skills of residents so that they are able to maintain improvements initially coordinated by the NHS. The goal is to recreate a neighborhood that is self-maintained, thus enabling the NHS to concentrate on other areas. This project has been demonstrated by the Chicago NHS/Block-Intensive Neighborhood Strategies Project (Chicago, Illinois), the New York NHS/Handivan Project (New York, New York) and the Lawrence NHS/Neighborhood Impact and Self-Reliance Project (Lawrence, Massachusetts).

Micro-Computer Management Systems

This project demonstrates a high-tech, cost-effective way to assist

NHSs in several areas of operation. Micro-computers have proven useful in the key areas of bookkeeping, neighborhood data collection, financial planning and analysis, word processing, and construction monitoring.

Small Scale Neighborhood Impact Strategies

These projects are low-cost, resident-initiated efforts to create visual improvements. Such projects generate increased resident involvement, create a more visible public image, recruit more local partners (i.e., paint stores, nurseries, hardware stores), and enhance local fundraising efforts. Such strategies have been implemented in the following cities:

- ATLANTA NHS (GRANT PARK)/Paint Grant & Erosion Control Project. (Atlanta, Georgia)
- BELOIT NHS/Neighborhood Video Training Project. (Beloit, Wisconsin)
- CATTARAUGUS COUNTY - Rural Revitalization Corporation/Resident-Built Community Playgrounds. (Ellicottville, New York)
- BURTON NHS/Neighborhood Impact Project (Burton, Michigan)
- GREAT FALLS NHS/Greening of the Neighborhood. (Great Falls, Montana)
- JACKSON NHS/Neighborhood Promotion Strategy. (Jacksonville, Mississippi)
- KENSINGTON-WINDSOR TERRACE NHS/Paint Project. (New York, New York)
- SANTA ANA NHS/PRIDE Project. (Santa Ana, California)
- SCRANTON NHS/Preserving Neighborhood Architectural Character. (Scranton, Pennsylvania)
- SOUTH BEND NHS/Model Block Marketing Strategy. (South Bend, Indiana)
- WATERLOO NHS/Target Block Neighborhood Impact. (Waterloo, Iowa)

Property Acquisition and Real Estate Development Strategies

These strategies deal with the acquisition and redevelopment of buildings and parcels of land for low-income and moderate-income housing. Projects have been funded in the following cities:

- SHREVEPORT NHS/Property Acquisition Project. (Shreveport, Louisiana)

- SPRINGFIELD NHS/UPPERHILL, BAY NEIGHBORHOOD-vacant house project (Shreveport, Louisiana)

- BALTIMORE COMMUNITY INVESTMENT INSTITUTE/Lending and Real Estate Development Training for Nonprofits. (Baltimore, Maryland)

Mutual Self-Help Rehabilitation

Self-help housing rehabilitation programs aid groups of homeowners to pool their labor to repair their homes. This has been demonstrated by the Oakland NHS/Mutual Self-Help Rehab Project in Oakland, California and by the Save the Children Federation/Mutual Self-Help Rehab Project in New York, New York.

Homeowner Rehabilitation Financing Strategies

These strategies lower the cost of financing rehabilitation for homeowners and provide credit counseling for homeowners to reduce the incidence of delinquent loans. This project has beem implemented by the Southside NHS/Credit Counseling and Training Project in Minneapolis, Minnesota.

Neighborhood Resident Leadership Development

This project strengthens neighborhood resident skills in leadership development and participation in NHS boards of directors as demonstrated by the Springfield NHS/Resident Leadership Development project in Jacksonville, Florida.

Attachment F

APARTMENT IMPROVEMENT PROGRAM

PROGRAM GOAL

The goal of the Apartment Improvement Program (AIP) is to improve neighborhood conditions primarily in those neighborhoods affected by apartment house properties. It is an effective, economical means to improve the physical, financial, and social conditions of multifamily properties, as well as the properties themselves, for the benefit of the current resident.

METHODS OF ACHIEVEMENT

Each local Apartment Improvement Program is a neighborhood based, action oriented partnership involving tenants, apartment house owners, financial institutions and local government.

Each sector of the partnership has significant responsibilities which generally include the following:

- Tenants help define and plan improvements needed in buildings; support the creation of tenant organizations for ongoing communication with owners and managers; provide input regarding affordable rent levels; and maintain building standards.
- Property owners accept the involvement of tenants and the other "partners" in building analysis, make available financial information pertinent to the building, and are asked to cooperate in making needed improvements in accordance with a financial plan which provides a fair return on investment while maintaining rents as low as possible. Owners are frequently asked to invest additional capital in the property, and in some cases, a change in management and/or ownership is required.
- Financial institutions are involved in reviewing the financial analysis; considering restructuring of existing mortgages or providing new financing; use of the "good repair" clause or other legal means to encourage the improvement of buildings where owners are slow in responding; and assist in finding and/or financing new ownership.
- The local government provides building inspection and sensitive code enforcement; public improvements and amenities; use of assessment and tax deferral programs; and, in some programs, assists by providing funding or program staff.

An analysis of the current and projected finances of each building is facilitated through the use of the computerized Real Estate Investment Analysis Model. This financial analysis, in conjunction with property inspection and tenant counseling services aids in the development of an individually tailored improvement plan which may include tenant participation, tax assessment reviews, increased investment or restructured mortgages.

OUTPUT - ACCOMPLISHMENTS

AIPs are at work (or under development) in 30 neighborhoods. These are located in:

Anaheim, California
Arlington, Virginia
Bronx, New York (2)
Cambridge, Massachusetts
Chicago, Illinois
Cleveland, Ohio
Cleveland Heights, Ohio
Dallas, Texas
Hartford, Connecticut (3)
Houston, Texas
Los Angeles, California
Minneapolis, Minnesota (2)
Montgomery County, Maryland
Mount Vernon, New York (2)
Newark, New Jersey
New Britain, Connecticut
Philadelphia, Pennsylvania
Queens, New York (2)
Seattle, Washington
Springfield, Massachusetts
Spring Valley, New York
Washington, D.C.
Yonkers, New York (2)

Through FY 1986, these programs will have begun or completed work on more than 18,000 multi-family units, involving more than $150 million in direct reinvestment.

In each case, improvements in the building have been achieved through one or more of the following remedies:

-- restructuring the existing mortgage (amount, rate) or obtaining new mortgage commitments
-- identifying appropriate income and expenses for a property
-- improving services and financial counseling to tenants
-- generating a capital improvement program with code requirements as a minimum
-- reviewing real estate assessment and tax deferral benefits
-- directing municipally financed capital improvements into the neighborhood
-- restructuring property ownership and/or management
-- improving tenant-manager-owner communications
-- developing tenant leadership

Ongoing technical services are provided to all operating Apartment Improvement Programs. This includes training of all staff, workshops for the boards and their committees, and special training on the use of the computerized Real Estate Investment Analysis Model.

By the end of the 1986 fiscal year, an additional 4-6 AIP developments will be undertaken. We project that by the end of FY 1987, AIP will have begun or completed work on more than 20,000 multi-family units and approximately $200 million in direct reinvestment.

IMPACT HIGHLIGHTS

AIP programs to date have generated a total of approximately $150 million in direct reinvestment in refinancing, and new equity. Programs in Yonkers, New York; Hartford, Connecticut; and Mount Vernon, New York (the first three AIPs developed) have improved and stabilized their original target areas and have expanded the program into additional neighborhoods. Typically, an AIP will continue to take on additional buildings for improvement as long as the problem of deteriorating multi-family housing exists in their target area, and will then expand to other neighborhoods within their community to which AIP techniques can be applied.

AIP is successfully operating within a wide range of building sizes and neighborhood profiles, ranging from a California community of four-family properties to New York area apartment complexes with as many as 700 units.

AIPs recently obtained access to a new multi-family secondary mortgage market through a specially structured master commitment entered into between Neighborhood Housing Services of America and the Federal National Mortgage Association. By the end of fiscal year 1986, $25 million of multi-family loans will be sold to FNMA.

WEDNESDAY, FEBRUARY 26, 1986.

GENERAL SERVICES ADMINISTRATION

CONSUMER INFORMATION CENTER

WITNESSES

TERESA N. NASIF, DIRECTOR, CONSUMER INFORMATION CENTER

WILLIAM B. EARLY, DIRECTOR, OFFICE OF BUDGET, GENERAL SERVICES ADMINISTRATION

Mrs. BOGGS. We are happy to welcome you, Mrs. Nasif, as Director of the Consumer Information Center. You must be doing a terrific job because the 1987 budget requests have increased by almost $90,000 for CIC, while virtually every other domestic agency is reduced.

Do you have any relatives at OMB?

Ms. NASIF. No, I don't.

Mrs. BOGGS. We welcome your opening statement in any manner in which you wish to present it and we will make the entire statement a matter of record. You may proceed.

OPENING STATEMENT

Ms. NASIF. Thank you, Madam Chairman, and members of the Subcommittee, I want to thank you for the opportunity to be here today to discuss the fiscal year 1987 budget request for the Consumer Information Center of the General Services Administration.

The Consumer Information Center assists Federal agencies in their efforts to reach citizens nationwide with important information about their programs. The CIC promotes public awareness of Federal consumer information through publication of the quarterly Consumer Information Catalog and through various media services. In addition, the CIC coordinates distribution of Federal consumer publications from a centralized facility in Pueblo, Colorado.

In fiscal year 1985, we saw a 23 percent increase—to more than 7 million—in the number of publications ordered from CIC by American consumers. This trend has continued during the first part of this year and we currently project an increase to approximately 7.5 million publications ordered in fiscal year 1986. These increases have occurred despite budget constraints being experienced by CIC as well as the Federal agencies supplying the publications.

We attribute the CIC success of achieving "more with less" to the following:

First, the American public appears to continue to place a lot of confidence in its government as a source of unbiased information. We see an eagerness on the part of citizens to request Federal information that is helpful in their daily lives.

Secondly, in a period of declining resources governmentwide, the CIC has been effective in obtaining private sector involvement with Federal agencies in the development and distribution of useful consumer information. Examples of this cooperation include jointly developed books distributed by CIC such as "Before You Say Yes—15 Questions to Turn Off an Investment Swindler", and "Healthy Questions", which deals with selecting health care professionals.

Thirdly, CIC has continued to identify and, with Subcommittee approval, to implement special marketing projects, thereby widening public awareness of the availability of Federal consumer information. During fiscal year 1985, these projects resulted in requests from the public for more than one million publications.

Fourth, we are placing a greater emphasis on media promotions of CIC information. During the past year, we have met with hundreds of writers, editors, and broadcasters as part of this intensified promotion effort. As one example of success in this area, we project that CIC's fiscal year 1985 television public service announcements will receive donated air time nationwide totalling an annual value of four million dollars.

Fifth, at a time when every budgetary decision is being carefully evaluated, Federal agencies still consider the CIC to be one of the most cost-effective methods for getting their information into the hands of the public on vital subjects such as social security, consumer credit, health and safety. Agency participation in the CIC program has remained fairly consistent over the last several years.

In brief, these are some of the factors contributing to CIC accomplishments in the face of the budget challenges faced throughout Government. I am confident that we can continue to perform valuable and cost-effective service for Federal agencies as well as for the public in the years ahead. I would be glad to answer any questions at this time.

Mrs. Boggs. We would also like to welcome you, Mr. Early, and apologize for not welcoming you earlier. William B. Early is the Director of the Office of Budget, General Services Administration.

GRAMM-RUDMAN REDUCTIONS

Mrs. Boggs. Before we get into your 1987 budget, let's talk about the effect of Gramm-Rudman in 1986. I believe CIC was subject to the 4.3 percent across-the-board sequester. How much was the appropriation reduced?

Ms. Nasif. The appropriation was reduced $53,000, but also, our overall administrative expense limitation was reduced by an additional $17,000; so we had a total cut of $70,000.

Mrs. Boggs. Why doesn't the justification take into account Gramm-Rudman's $70,000 cut in your administrative expense limitation?

Ms. Nasif. Our budget justification on page 1A does show the cut in the appropriation, in the budget authority. We understood that we were to only show the cut in budget authority and so we did not put in the other $17,000, although the President's budget does reflect it. Perhaps Mr. Early would like to add to that.

We understood from OMB that is the way we were supposed to handle it.

Mr. **Early**. Yes. The decisions on the specific reductions on Gramm-Rudman were not decided at the time the budget was printed, so the reductions are shown separately in the budget, as we have shown in the justification on page 1A. Instead of the reduction being spread throughout, we have provided an insert so there is a consistency in the amount appropriated by the Committee last year with the request that we have for the current year.

Ms. **Nasif**. We are aware it is a $70,000 cut, not a $53,000 cut, so we will reduce accordingly.

Mrs. **Boggs**. We want to be sure there is no confusion about this because this is a statutory limitation.

Ms. **Nasif**. Yes, we understand.

Mrs. **Boggs**. On page 18 of the justification, the figure shown for total administrative expenses for 1986 is $1,613,000, the enacted amount.

Ms. **Nasif**. Yes, that is correct.

Mrs. **Boggs**. Gramm-Rudman will make a further $70,000 reduction.

Ms. **Nasif**. Yes, that is correct. So it would end up being $1,543,059 after Gramm-Rudman.

Mrs. **Boggs**. Where will that reduction be taken?

Ms. **Nasif**. We are going to be applying it to the printing cost for our *Consumer Information Catalog.* I have our current edition here to pass out in case you had any questions about any of the materials that we distribute. It basically is going to cut us back to the same level of distribution as we experienced in fiscal year 1985.

Between 16 and 17 million *Catalogs* will be printed. We had, of course, a cut in fiscal year 1985 due to the Deficit Reduction Act of $63,000. So we tightened our belt in the printing area in 1985 and find ourselves tightening our belts in that area again in 1986.

Mrs. **Boggs**. Would you submit for the record the corrected 1986 figures showing protected obligations by activity and object class?

Ms. **Nasif**. Yes, we would be glad to.

[The information follows:]

CONSUMER INFORMATION CENTER FUND
JUSTIFICATION FOR APPROPRIATED FUNDS

Summary Reconciliation of 1987 Estimate to Comparable Amounts for 1986

1985	Appropriation	$1,149,000
	Increase	
	Funding for Comprehensive Public Service Campaign	+100,000
	Decrease	
	Reduction of 1.1 Percent Effected by P.L. 99-160	-13,739
1986	Total	$1,235,261
	Decrease	
	Reduction Pursuant to P.L. 99-177	-53,000
1986	Adjusted Total	$1,182,261
	Increase	
	Miscellaneous Expenses	+89,739
1987	Total	$1,272,000

1986 Adjusted Appropriation	$1,182,261
Change	+89,739
1987 Estimate	$1,272,000

GENERAL STATEMENT

The Consumer Information Center (CIC) was established in 1970 to: (1) help Federal departments and agencies release consumer information they wish to bring to the public's attention and (2) assure public awareness of and access to this information. To carry out these mandates, CIC has an agency liaison program to identify and assist in the development of Federal consumer information; it publishes the Consumer Information Catalog and has a media and marketing program to promote the information; and it contracts with an order processing facility in Pueblo, Colorado in order to distribute the information.

Public Law 98-63 established a revolving fund for the CIC. Under this fund, CIC activities are financed from the following: Annual appropriations from the general funds of the Treasury, reimbursements from agencies for distribution of publications, user fees collected from the public, and any other income incident to CIC activities. All are available as authorized in appropriation acts without regard to fiscal year limitations.

APPROPRIATION LANGUAGE

For necessary expenses of the Consumer Information Center, including services authorized by 5 U.S.C. 3109, ($1,249,000,) $1,272,000, to be deposited into the Consumer Information Center Fund: Provided, That the appropriations, revenues and collections deposited into the fund shall be available for necessary expenses of Consumer Information Center activities in the aggregate amount of $5,200,000. Administrative expenses of the Consumer Information Center in fiscal year (1986) 1987 shall not exceed ($1,631,000.) $1,654,000. Appropriations, revenues and collections accruing to this fund during fiscal year (1986) 1987 in excess of $5,200,000 shall remain in the fund and shall not be available for expenditure except as authorized in appropriation Acts.

(Sec. 416. Notwithstanding any other provision of this Act, amounts otherwise provided by this Act for the following accounts and activities are reduced by the following amounts:

GENERAL SERVICES ADMINISTRATION

"Consumer information center (appropriation)", $13,739;
"Consumer information center (limitation on administrative expenses)", $17,941;)

CONSUMER INFORMATION CENTER FUND

POSITIONS BY GRADE AND AVERAGE EMPLOYMENT ADMINISTRATIVE EXPENSES

Grade	Actual, 1985 C.O.	Actual, 1985 Field	Actual, 1985 Total	Program, 1986 C.O.	Program, 1986 Field	Program, 1986 Total	Request, 1987 C.O.	Request, 1987 Field	Request, 1987 Total
GS/GM-15	1	-	1	1	-	1	1	-	1
14	2	-	2	2	-	2	2	-	2
13	4	-	4	5	-	5	5	-	5
12	3	-	3	2	-	2	2	-	2
11	1	-	1	2	-	2	3	-	3
9	1	-	1	1	-	1	3	-	3
7	3	-	3	4	-	4	1	-	1
6	2	-	2	2	-	2	2	-	2
5	2	-	2	-	-	-	-	-	-
Permanent Positions	19	-	19	19	-	19	19	-	19
Avg. Empl:									
Permanent	19	-	19	19	-	19	19	-	19
Other	1	-	1	1	-	1	1	-	1
TOTAL	20	-	20	20	-	20	20	-	20

CLASSIFICATION BY OBJECTS

	Actual, 1985	Program, 1986	Request, 1987
Personnel compensation: Central office	$585,786	$629,000	$621,000
Field	-	-	-
11 Total personnel compensation	$585,786	$629,000	$621,000
Other Objects			
12 Personnel benefits	79,046	75,000	73,000
13 Benefits for former personnel	-	-	-
21 Travel	17,334	19,000	19,000
Travel (motor pool)	87	-	-
22 Transportation of things	35,036	42,000	42,000
23 Rents and utility services	7,927	6,000	9,000
Payment to Federal Buildings Fund	63,458	80,000	77,000
Communication services	56,430	60,000	60,000
24 Printing and reproduction	378,816	398,059	506,000
25 Other services	92,507	220,000	233,000
26 Supplies and materials	4,695	4,000	4,000
31 Equipment	14,088	10,000	10,000
32 Lands and structures	-	-	-
Total Other Objects	$749,424	$914,059	$ 1,033,000
Total Obligations	$ 1,335,210	$ 1,543,059	$ 1,654,000
Position Data			
Average salary, GS positions	$31,605	$33,045	$34,320
Average grade, GS positions	10.21	10.68	11.11

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CONSUMER INFORMATION CENTER FUND

POSITIONS BY GRADE AND AVERAGE EMPLOYMENT TOTAL

Grade	Actual, 1985 C.O.	Actual, 1985 Field	Actual, 1985 Total	Program, 1986 C.O.	Program, 1986 Field	Program, 1986 Total	Request, 1987 C.O.	Request, 1987 Field	Request, 1987 Total
GS/GM-15	1	-	1	1	-	1	1	-	1
14	2	-	2	2	-	2	2	-	2
13	4	-	4	5	-	5	5	-	5
12	3	-	3	2	-	2	2	-	2
11	1	-	1	2	-	2	2	-	2
9	1	-	1	1	-	1	3	-	3
7	3	-	3	4	-	4	1	-	1
6	2	-	2	2	-	2	2	-	2
5	2	-	2	-	-	-	-	-	-
Permanent Positions	19	-	19	19	-	19	19	-	19
Avg. Empl:									
Permanent	19	-	19	19	-	19	19	-	19
Other	1	-	1	1	-	1	1	-	1
TOTAL	20	-	20	20	-	20	20	-	20

CLASSIFICATION BY OBJECTS

	Actual, 1985	Program, 1986	Request, 1987
Personnel compensation: Central office	$587,965	$629,000	$621,000
Field	-	-	-
11 Total personnel compensation	$587,965	$629,000	$621,000
Other Objects			
12 Personnel benefits	79,252	75,000	73,000
13 Benefits for former personnel	-	-	-
21 Travel	17,127	19,000	19,000
Travel (motor pool)	87	-	-
22 Transportation of things	32,485	42,000	42,000
23 Rents and utility services	7,927	6,000	9,000
Payment to Federal Buildings Fund	63,458	80,000	77,000
Communication services	56,640	60,000	60,000
24 Printing and reproduction	403,478	398,059	506,000
25 Other services	2,377,683	2,779,000	2,928,000
26 Supplies and materials	4,423	4,000	4,000
31 Equipment	14,088	10,000	10,000
32 Lands and structures	-	-	-
Total Other Objects	$ 3,056,648	$ 3,473,059	$ 3,728,000
Total Obligations	$ 3,644,613	$ 4,102,059	$ 4,349,000
Position Data			
Average salary, GS positions	$31,605	$33,045	$34,320
Average grade, GS positions	10.21	10.68	11.11

CONSUMER INFORMATION CENTER FUND
(Dollars in Thousands)

	Actual 1985	Estimate 1986	Request 1987	Change 86 vs 87
Source of Funding:				
Unobligated Balance Brought Forward	920	848*	678	-170
Unobligated Balance Rescinded	-63	-	-	-
Appropriations	1,149	1,182*	1,272	+90
Reimbursements from Agencies	2,193	2,459	2,595	+136
User Fees	292	283	300	+17
Other Income	155	8	8	-
Total Resources Available	4,646	4,780	4,853**	+73
Application of Resources:				
Administrative Expenses				
-Salaries and Benefits	665	704	694	-10
-Printing of the Catalog	380	360	471	+111
-Advertising Campaign	20	155	160	+5
-All Other	270	324	329	+5
Total Administrative Expenses	1,335	1,543	1,654	+111
Publications Distribution	2,220	2,459	2,595	+136
Special Projects	71	100	100	-
Prior Year Adjustments	172	-	-	-
Unobligated Balance Carried Forward	848	678	504	-174
Total Resources Applied	4,646	4,780	4,853**	+73

* Actual

** The requested aggregate limit of $5,200,000 (page 2) for FY 1987 exceeds the currently anticipated resource level for FY 1987 by $347,000. This overage allows for potential growth in publication development and therefore reimbursements to CIC from the private sector as well as from Federal agencies.

PRINTING OF CATALOGS

Mrs. BOGGS. Last year you indicated you hoped to return to the old level of 20 million *Catalogs* in 1986. The justification mentions only 17 million on page 3 and the Gramm-Rudman cut may reduce that further. Why are the *Catalogs* always the first thing to go?

What are the adverse effects of printing fewer *Catalogs* and what would happen if you only printed ten million *Catalogs*?

Mr. NASIF. The *Catalogs* are the most expensive, non-personnel item in our budget. Our personnel expenses run to nearly $700,000.

Then the next biggest expenditure is about $400,000 for the Catalog. Together that comes to $1.1 million, which is very close to the total appropriated amount of $1.2 million.

It is the area where generally we do take the cuts.

The rest of the budget pays for things like SLUC and our equipment and our media services, which include all our promotional efforts. The printing of *Catalogs* is generally the first place where we have the most flexibility to cut. In the past, when we had to cut back—it was also to the 17 million level in fiscal year 1985—we intensified our media and marketing efforts.

The *Catalog* is the primary way that we let people know what booklets are available from Pueblo. As you reduce *Catalogs*, generally your orders go down and the publication distribution goes down. This requires that you start working really hard in the media and marketing areas to let people know in other ways of the availability of the information.

If we reduced to ten million *Catalogs*, which is something we were looking at and analyzing in case Gramm-Rudman cuts of up to 20 and 25 percent should be automatically triggered for 1987, our calculations show that our publication distribution could go down as low as four to four and a half million booklets requested by the American public. This compares to the normal projected level of 7.5 million booklets requested by the American public in 1987.

So there is a pretty strong connection between the *Catalog* as a marketing tool and our other media and marketing services and the number of publications ordered by consumers.

SPECIAL MARKETING PROJECTS

Mrs. BOGGS. Your statement and the budget justification make it clear that CIC has shown some ingenuity in marketing publications. How many special projects did CIC undertake in 1985?

Ms. NASIF. In 1985, we had a total of four special marketing projects. The special marketing projects were started in fiscal year 1984 and since 1984 we have funded a total of 11 different ones.

Generally, they are projects we would not normally otherwise undertake using appropriated funds, but we have the authority to use user fee money that we collect from the public. In consultation with the Subcommittee, we identify and implement projects where we think we are going to get a very good return for the amount of money invested.

We look for things that are different and innovative and which help us to reach audiences who might not otherwise be reached.

Mrs. BOGGS. Have any of those projects backfired?

Ms. Nasif. Yes, of the 11, there was one that did backfire. In our effort to find new customers for Federal consumer information, we became interested in commercial mailing firms that actually have mailing lists of persons who have purchased through mail a variety of products. After analyzing all the ones on the market, we did select this particular outfit that could segregate demographically the types of customers to whom they would mail. They guaranteed everyone on their mailing list would have purchased mail order products within the last six months. This, of course, is the behavior we are looking for because basically we are a mail order operation.

So we did contract with them to mail *Catalogs* to their list and we got what we considered to be an unsatisfactory return rate. It was less than a one percent return rate.

So we decided that we were going to come up with our own mailing list. We went to the Government Printing Office and asked them to share with us a list of their customers who order GPO sales documents. They gave us that list without charge and it came to about 300,000 people from which we got a six percent return rate.

So it just goes to prove that there is an element of trial and error. But the other ten projects have been very successful.

Mrs. Boggs. What are you planning in 1986?

Ms. Nasif. One thing that we are doing this year is to produce a video news release (VNR) because we have become aware of the fact that television stations are much more likely to use features that are on tape or that are beamed to them via satellite, as opposed to using the usual written news release.

We are actually working on this project right now. We are going to do a 90-second segment that will be used by local news stations in a regular newscast. It is going to be a behind-the-scenes look at the operation of Pueblo, Colorado. We think it is news because it's an address that is so familiar to millions of Americans.

It will give people a glimpse of the activity at the Pueblo facility. It is going to not only talk about the most popular publications available from the Consumer Information Center, it is going to talk about our free *Catalog* and how to get a copy of it.

We are planning to release the VNR during National Consumer Week because we think that is when we can expect the maximum usage. It is not really a hard news item, but during National Consumer Week we think there is the greatest likelihood of it getting picked up. It will cost less than $10,000, including offering copies of the VNR on tape for use as an "evergreen." In other words, the TV news departments can use it as a filler throughout the year, not just necessarily during National Consumer Week.

FREE TITLES IN CATALOG

Mrs. Boggs. On page 10 of the justification, you indicate that the share of free titles in the *Catalog* has stabilized at 46 percent. Are you satisfied that figure has stabilized?

Ms. Nasif. Yes, and the last several *Catalogs* have borne out that statistic. What is an unknown, of course, is the impact of Gramm-Rudman, especially beginning in fiscal year 1987. Participation in our program is very good, but there are three different ways that an agency can list a publication in the *Catalog*.

One of the ways is as a free publication where the consumer does not pay to receive it. We think that we will begin to see more of a shift into the sales area rather than the free, but thus far it has stabilized over the last year or more at about 45 percent free.

FIFTY-CENT PROGRAM

Mrs. **Boggs**. Twenty-one percent of the titles are 50-cent sale items. Would you explain that to me?

Ms. **Nasif**. Prior to this 50-cent program, there were two ways that agencies could list publications in our *Catalog*. They could either list them as a free item—which means they pay both printing and distribution expenses, including the handling and the postage—or they could list them as a sales item. In this case, GPO will basically pay for the printing and handling and postage and distribution, but it would set a sales price to cover all of those expenses.

In fiscal year 1984, when we started the 50-cent program, the average GPO sales price was $3.00, which made some Federal agencies unhappy. They might not have enough money to offer the book free, but they did not necessarily want their book to be priced at $3.00. The 50-cent program began as a cooperative effort between GPO, the agencies and the Consumer Information Center. The agencies pay for the printing expenses and GPO charges 50 cents to the consumer for each book. That 50 cents basically covers the postage and the handling.

Everyone is really pleased with the arrangement because it has created a whole category of moderately priced books that might not otherwise be available to the public. This program is available exclusively through the Consumer Information Center.

CIC works with the agencies to identify the books. We do all the media promotion, as well as listing it in the *Catalog*. The agencies pay for the cost of printing and the cost of shipping the copies to Pueblo.

GPO handles the order processing and keeps the 50 cents to cover their expenses. So it has been a very popular category. We are now receiving more orders for 50-cent publications than for the regularly priced GPO items which are priced higher.

Mrs. **Boggs**. If a consumer orders several 50-cent publications, are they charged a dollar order fee as well?

Ms. **Nasif**. No, they are not. The dollar fee is applied only if you order two or more free books. If you send in an order only for 50-cent items or only for GPO sales items or if you only order one free item, you don't have to pay the dollar.

AVERAGE SALES PRICE

Mrs. **Boggs**. Still on page 10, the average unit cost to consumers has almost been cut in half from $2.40 to $1.30. How can that drop so drastically?

Ms. **Nasif**. Well, two things happened. First, the introduction of the 50-cent books, of which we have 54 listed in the spring *Catalog*, lowered the average price of all of the sales items. Secondly, the

Government Printing Office under the leadership of their Public Printer, Danford Sawyer, and now Ralph Kennickell, has made a determined effort to try to get the sales price down, especially for the more popular and consumer-oriented publications. GPO does have a system now of pricing the books at a more reasonable price than they previously have been.

Mr. Green. Do you expect further decreases in 1986 and 1987?

Ms. Nasif. As we increase the number of 50-cent books in the *Catalog,* this will be the case. The way we determine which books are appropriate for the 50-cent category is that CIC identifies each title along with the agency expressing a desire that indeed that is the way it wants to distribute them. The list is sent to the Government Printing Office and, if they agree that these titles are appropriate, then they are entered into the 50-cent program and listed as such in the *Catalog.*

We see that the 50-cent group could easily increase up to perhaps a third of the total titles in the *Catalog,* in other words, end up being 70 titl rather than the 54. Agencies are very enthusiastic about this program. Basically, they are saving the postage cost from CIC by GPO charging 50 cents.

NUMBER OF PUBLICATIONS DISTRIBUTED

Mrs. Boggs. One bottom line measure of CIC's success is the number of publications actually distributed. That figure had fallen sharply from 14 million in 1982 to eight million in 1983 to six million in 1984. Page 11 indicates it rose in 1985 to seven million. Have you turned the corner?

Ms. Nasif. I hope so. I hope we continue on the way up. We are predicting that in fiscal year 1986 we will be distributing 7.5 million so we are anticipating a modest increase.

Mrs. Boggs. The justification does not provide estimates of the number of publications that you expect to distribute for 1986 and 1987. Do you actually have estimates for those?

Ms. Nasif. Yes. We believe that in both 1986 and 1987 it will be 7.5 million. If it weren't for Gramm-Rudman, I probably would give a higher prediction for 1987, but I am just going to hold the line and say 7.5 million repeated in 1987.

Mrs. Boggs. On page 12, the justification shows $10,000 planned for equipment in 1986 and 1987. Just what equipment is being purchased and can that be foregone to accommodate part of the Gramm-Rudman reduction?

Ms. Nasif. The equipment that we are purchasing primarily is word processing equipment and microcomputer equipment. We are attempting to move our computerized information systems from a mainframe computer onto our own in-house microcomputers. This will save us the cost of having to pay the mainframe expenses and it will provide us with greater control.

So that is what we are planning to do and we think ultimately it will be cost effective. We are planning to take the brunt of Gramm-Rudman in 1986 out of the printing of the Catalogs, but equipment certainly is an area that we could consider.

I think that eventually, though, it will pay off to invest in the equipment. The most expensive part of our automated systems involves our mailing list to distribute copies of our *Consumer Information Catalog* as well as our mailing list to send our information releases to the media. We also do survey work on our mainframe and that is one of the systems that we have already migrated onto our in-house micro.

It is probably ultimately more cost effective to put the money into the equipment than to continue paying the charges of the mainframe system.

AVERAGE GRADE

Mrs. **Boggs**. At the very bottom of page 12, look at the average G.S. grade. The trend is steadily upward by almost a half grade per year, which is hardly grade creep. What explains those increases?

Ms. **Nasif**. In the years prior to fiscal year 1983, from fiscal year 1979 to 1983, we had a problem with grade creep. We were well over an 11 average grade structure. Starting in fiscal year 1983, we determined that all vacancies would be filled as much as possible by junior members, younger professionals. Starting in fiscal year 1983, out of 11 vacancies that we had, we filled nine of them at the grade five or seven level. As a matter of fact, in fiscal year 1984, we finally got the average grade down to under ten. It was 9.95. The increases you referred to represent our younger professionals earning promotions and moving up the career ladder.

The average grade increases show basically persons moving up from the G.S. 5 and 7 level in 1986 and 1987. We give promotions when people earn them and so many of the people we have hired have been good and are moving up the ladder. This is evidenced by the successes we have had in so many areas.

REVENUES FROM USER FEES

Mrs. **Boggs**. Let's turn to page 18. At the top under "user fees" we find $292,000 in 1985 and $300,000 in 1986. Last year's justification predicted user fees would be $400,000 and would increase to $482,000. Can you tell us what happened?

Ms. **Nasif**. We were very optimistic last year in our projections. Our user fees have increased steadily every year. Last year we realized $292,531 and we are predicting $300,000 for 1986, but it looks like we will be able to earn $350,000 in 1986 mainly because we are planning a special promotion with *Family Circle Magazine*. They are doing a special feature highlighting 25 of our free publications and a dollar fee will be applied to that promotion.

That is due in an issue in June and, if that occurs, we are probably going to make about $50,000 more than predicted. All I can say is that last year's projection was overly optimistic.

Mrs. **Boggs**. Does the 50-cent policy contribute to the drop in user fees?

Ms. **Nasif**. No, not really. They are unrelated in that GPO is the one who keeps the 50 cents and we are the ones that keep the dollar fee. We had been anticipating a more accelerated growth of the user fees back at the time we were putting together the fiscal year 1986 budget presentation.

OTHER INCOME

Mrs. Boggs. On the next line on page 18 is "other income." Where did the $155,000 come from in 1985?

Ms. Nasif. The "other income" category has a variety of different sources of revenue. The primary source is when we collect money from a private sector organization to pay distribution of any of the free books from Pueblo. The money gets deposited under "other income" as opposed to "reimbursements from Federal agencies." Last year for the first time we realized that it was probably not correct to include the private sector money with the Federal agency reimbursements. Therefore, we started to report it under the "other income" source and, of the $155,000, about $115,000 represents monies that we received from five different private sector organizations sponsoring books from Pueblo.

In addition to that, we did a special marketing project for an office in GSA, the Federal Procurement Data Center, for which we were reimbursed $31,504 for our staff time. That also went in there.

Then there is some other money that we received from congressional offices that amounted to $6,460. If the congressional office wishes to, they may order our *Catalog* with a blank front page and they may put their personal message to their constituents on the front page. So the money that we have to pay to the printer to change the typesetting and do the plate change and the layout, we pay for out of printing. When we receive it, it is deposited into "other income." The remainder of the $155,000 came from the American Bar Association for printing expenses.

Mrs. Boggs. Why does it drop to $8,000 in 1986 and 1987?

Ms. Nasif. It shows the estimate only of the congressional imprinting. For purposes of this presentation, the private sector money was rolled into the line that is reimbursements from agencies. When we actually receive the money, it is going to be placed under "other income."

We are not planning any special marketing projects such as the one we did for Federal Procurement Data Center.

GPO RATE INCREASES

Mrs. Boggs. Last year you were having some major battles with GPO on printing and distribution costs. What was the final result? Did GPO increase its rates?

Ms. Nasif. Yes. At the beginning of fiscal year 1985, the Government Printing Office—who actually owns the Pueblo, Colorado facility and with whom we contract for the distribution of the books—announced to us that they were planning to implement a 25 percent increase in their rates.

We had several meetings with the GPO officials to present our objections and to present the obvious fact that it was going to be devastating to the program to receive these sudden increases which, of course, we would have to pass on to the agencies. I am happy to report that the increases ended up being approximately eight percent. The average unit cost for distributing books during fiscal year 1985 ended up being 36 cents.

During this period the Postal Service, in February of 1985, announced a postage increase. So it was fortunate that GPO did not implement their originally stated increase of 25 percent.

Mrs. Boggs. Are there any prospects for further increases in 1986 and 1987 from GPO?

Ms. Nasif. There will probably be just very modest increases, more like five percent. During our mid-year review in April and May to calculate the bills that we will be sending to the agencies, we will confer with GPO to make sure we understand what their plans are for the second six months of fiscal year 1986 and fiscal year 1987.

CONSUMER'S RESOURCE HANDBOOK

Mrs. Boggs. CIC's budget request is up in 1987, but I am concerned about the impact of reductions on other agencies' budgets, especially the Office of Consumer Affairs. Doesn't CIC distribute copies of the *Consumer's Resource Handbook* which OCA prepares? How many copies a year are distributed?

Ms. Nasif. We received a supply of 740,000 copies of the new *Consumer's Resource Handbook* in February for distribution. At the beginning of fiscal year 1987, we will probably have about 500,000 copies left. The distribution cost would probably be in the neighborhood of $215,000.

If OCA did not have the funding to pay for distribution, we would not have any way of responding to the public when they wrote in to ask for the *Consumer's Resource Handbook*. The important thing to remember is that the *Consumer's Resource Handbook* has been promoted to the public for years now as being available free from Pueblo, Colorado. Even if we were to stop all our promotional activities and drop it from the *Catalog* and not mention it to the media, it is listed in so many resource directories that I think that we would for months and years to come still be receiving requests for it. We would, of course, be unable to meet the requests.

Mrs. Boggs. So even if you had some copies of the *Handbook* left over at the end of 1986, that stock probably wouldn't last throughout 1987, would it?

Ms. Nasif. The key is to find someone willing to pay the distribution cost because if we mailed out those 500,000 books in fiscal year 1987, GPO will be charging us for that expense. Normally we would turn to OCA and pass the bill on to them. Since nobody would be available to pay the distribution cost, we would not be able to mail it out.

Mrs. Boggs. We seem to hear that it would be almost impossible to put the book together.

Ms. Nasif. It is a very complicated process and I think OCA has done a fantastic job of updating it and getting it out in a timely fashion. It is very time consuming to produce such an accurate book. It does take a team of experienced staff such as that OCA has had working on it.

Mrs. Knauer said that thus far no one has stepped forward and volunteered to take it over. I am not surprised because it takes quite a commitment of resources to do this type of revision on the scale that it requires.

Mrs. **Boggs**. How will you respond to consumer requests for the *Handbook* in 1987 if OCA does not have the funds to reimburse you for shipping?

Ms. **Nasif**. Generally, whenever we are caught in this very unhappy predicament of our receiving orders for which a book cannot be sent out, we have to send a response to the consumer. This means that we will be paying postage to send a notice to consumers to say we don't have the book.

This will increase CIC costs since it will involve handling and postage costs.

I suppose one option is just to ignore the request, but that is not our policy. We have always had the policy of responding to all publication requests.

Mrs. **Boggs**. If you have 500,000 copies of the *Handbook,* what will that cost to distribute?

Ms. **Nasif**. At our projected fiscal year 1987 unit cost, $215,000.

USE OF CIC FUND

Mrs. **Boggs**. Could you use a revolving fund to cover those expenses?

Ms. **Nasif**. Yes, if that were the direction of this Committee. However, on page 18 we show that CIC is planning to use monies from the fund to offset expenses both in 1986 and 1987. The projection is that at the end of 1987 we would have about $500,000 remaining in our revolving fund. Therefore, it would mean that we would be using almost half of our reserve to fund distribution of one publication. I believe it would be more prudent not to do that because we don't know what the impact of Gramm-Rudman will be on the appropriations process.

We don't know if Committees will be pressured to make the decision not to give full budget requests to agencies and in that case, I think certainly the option of using monies from the fund would be available.

So we would basically end up using more than 40 percent of the fund to distribute the *Consumer's Resource Handbook.*

Mrs. **Boggs**. Thank you very much, Mrs. Nasif, and Mr. Early. Thank you. Keep up the good work.

Ms. **Nasif**. Thank you so much. May I give you one of our kits that contains some of the publications?

Mrs. **Boggs**. We hope you reach eight million publications this year.

Ms. **Nasif**. Thank you. With your support, I think we could.

Congressional presentation

Estimates of appropriations for FY 1987

Consumer Information Center

General
Services
Administration

CONSUMER INFORMATION CENTER FUND
JUSTIFICATION FOR APPROPRIATED FUNDS

Summary Reconciliation of 1987 Estimate to Comparable Amounts for 1986

1985	Appropriation	$1,149,000
	Increase	
	Funding for Comprehensive Public Service Campaign	+100,000
	Decrease	
	Reduction of 1.1 Percent Effected by P.L. 99-160	-13,739
1986	Total	$1,235,261
	Decrease	
	Reduction Pursuant to P.L. 99-177	-53,000
1986	Adjusted Total	$1,182,261
	Increase	
	Miscellaneous Expenses	+89,739
1987	Total	$1,272,000

CONSUMER INFORMATION CENTER FUND

SUMMARY OF BUDGET AUTHORITY

(In thousands of dollars)

	1985 Actual	1986 Estimate	1987 Estimate
Enacted/Requested Budget Authority.................	$1,149	$1,235	$1,272
Reduction of Budget Authority pursuant to P.L. 99-177.................................		-53	
Total Budget Authority............................	$1,149	$1,182	$1,272

1986 Adjusted Appropriation	$1,182,261
Change	+89,739
1987 Estimate	$1,272,000

GENERAL STATEMENT

The Consumer Information Center (CIC) was established in 1970 to: (1) help Federal departments and agencies release consumer information they wish to bring to the public's attention and (2) assure public awareness of and access to this information. To carry out these mandates, CIC has an agency liaison program to identify and assist in the development of Federal consumer information; it publishes the Consumer Information Catalog and has a media and marketing program to promote the information; and it contracts with an order processing facility in Pueblo, Colorado in order to distribute the information.

Public Law 98-63 established a revolving fund for the CIC. Under this fund, CIC activities are financed from the following: Annual appropriations from the general funds of the Treasury, reimbursements from agencies for distribution of publications, user fees collected from the public, and any other income incident to CIC activities. All are available as authorized in appropriation acts without regard to fiscal year limitations.

APPROPRIATION LANGUAGE

For necessary expenses of the Consumer Information Center, including services authorized by 5 U.S.C. 3109, ($1,249,000,) $1,272,000, to be deposited into the Consumer Information Center Fund: Provided, That the appropriations, revenues and collections deposited into the fund shall be available for necessary expenses of Consumer Information Center activities in the aggregate amount of $5,200,000. Administrative expenses of the Consumer Information Center in fiscal year (1986) 1987 shall not exceed ($1,631,000.) $1,654,000. Appropriations, revenues and collections accruing to this fund during fiscal year (1986) 1987 in excess of $5,200,000 shall remain in the fund and shall not be available for expenditure except as authorized in appropriation Acts.

(Sec. 416. Notwithstanding any other provision of this Act, amounts otherwise provided by this Act for the following accounts and activities are reduced by the following amounts:

GENERAL SERVICES ADMINISTRATION

"Consumer information center (appropriation)", $13,739;
"Consumer information center (limitation on administrative expenses)", $17,941;)

JUSTIFICATION

Current Activities

Federal agencies develop important consumer information as a direct result of carrying out their program activities. The Consumer Information Center alerts the public about the availability of this information and responds to requests for the information. In the process, the CIC represents not only a cost-effective channel for Federal agencies in their efforts to keep the public informed on important issues, but also a cost-effective source of information for American consumers. The quarterly Consumer Information Catalog is the primary tool for increasing public awareness of Federal consumer information. It is a 16-page descriptive listing of more than 200 free and sales Federal publications of consumer interest on a wide variety of subjects. During FY 1986, approximately 17 million Catalogs will be distributed through a variety of channels and in response to individual requests generated through the media. The distribution channels include Members of Congress; elementary through graduate school educators; libraries; local, state, and national consumer organizations; non-profit organizations with active consumer programs such as credit unions, community groups, professional associations, and labor unions; and Federal facilities with heavy visitor traffic.

The following provides highlights of CIC accomplishments in its three major program areas: agency liaison, media and marketing, and distribution.

AGENCY LIAISON

The agency liaison program is the basis for identifying and developing the publications which make up the Consumer Information Catalog. Every program area revolves around this important function and depends on its success. In the agency liaison process, CIC works closely with program and information staff members in more than 30 Federal agencies to ascertain their information dissemination needs and to develop strategies to meet those needs. CIC agency liaison staff members maintain regular contact with Federal officials to learn of programs and promotional plans and suggest ways to attain goals. They provide editorial review of new and revised publications; develop publication distribution plans in line with available agency resources; and identify appropriate private sector partners to work with agencies on cooperative projects. In addition, staff members coordinate marketing and promotion plans for publications in the CIC program; provide evaluation to assist agencies in assessing the effectiveness of publications and better address consumer needs when revising and updating publications; provide newsclips and other feedback on the success of media promotion activities to agencies on a regular basis; and regularly report inventory and distribution data to participating agencies.

The FY 1985 agency liaison program was highlighted by CIC's active involvement in cooperative publication efforts between Federal agencies and the private sector. The following examples illustrate CIC accomplishments in the agency liaison area:

. Since financial issues have become increasingly complex, the CIC has stepped up efforts to identify and offer publications relating to sound money management. In 1985 the CIC began distribution of two publications intended to help consumers with their financial affairs. The Consumer Handbook on Adjustable Rate Mortgages was developed by the Federal Reserve Board and more than 20 Federal agencies, councils, and trade associations. Adjustable rate mortgages or "ARMs" are a recent, and sometimes confusing, alternative in home financing. Compared to fixed-rate mortgages, ARMs present consumers with unfamiliar and complicated options concerning changing payments and terms. The Handbook helps consumers understand the basic features, advantages, risks, and terminology associated with ARMs. The second publication, Before You Say Yes--15 Questions to Turn Off an Investment Swindler, was published by the National Futures Association and the Commodity Futures Trading Commission. Investment swindlers, generally boiler room operators, bilk unwary consumers out of an estimated $200,000,000 annually. This publication provides questions designed to prevent consumers from being taken in by fraudulent investment schemes, especially those involving commodity futures.

. In 1985, the Human Nutrition Information Service (HNIS) of the U.S. Department of Agriculture and the Department of Health and Human Services developed the second edition of Nutrition and Your Health: Dietary

Guidelines for Americans. This is an update of the original guidelines released by USDA/HHS in 1980 and gives American consumers advice on food selection and eating habits based on the latest nutrition research. CIC worked closely with HNIS to develop a comprehensive distribution plan for the Dietary Guidelines and the CIC facility in Pueblo, Colorado was designated as the exclusive distribution agent. USDA provided copies and funding for the free distribution of 800,000 copies in FY 1986 -- half of those to go out in response to requests for single copies and half to go out in bulk to schools, consumer groups, and other appropriate outlets requesting them. One of the special promotions already undertaken by CIC was to offer the Dietary Guidelines in an insert mailed out to more than 3 million recipients of VA benefit checks in November 1985. As of the end of December 1985, the CIC had sent out more than 267,000 copies of Dietary Guidelines in response to consumer requests.

. CIC is continuing to work closely with the Food and Drug Administration (FDA) to identify publication topics which will help the consumer choose a safe and healthy lifestyle. Some of the many topics that FDA has provided to the public through CIC during FY 1985 include the unique nutritional needs of women (including the danger of osteoporosis when women fail to get enough calcium), irradiation of food, diet and the elderly, asthma, weight reduction, ulcers, artificial sweeteners, and herpes.

. Late in 1985, the President's bout with colon cancer focused the nation's attention on this little-discussed disease. CIC, which was already distributing both Cancer Prevention and The Colon, prepared a special news release for the health press offering tips from these booklets and encouraging the public to send for free copies.

. A surge in elementary school enrollment has, in turn, increased interest in education topics. CIC worked with the National Institute of Education to develop and make available to the public a series of books on how to help your child do better in a variety of school subjects. CIC continues to be a major source of information on Federal financial aid for students, including specific higher education opportunities for minorities and women.

. Since safety continues to be a priority concern, CIC worked with the Consumer Product Safety Commission to promote use of Safety for Older Consumers, an extensive checklist for finding and correcting fire and accident hazards around the home. The Safe Food Book helps consumers identify and avoid the common causes of food poisoning. CIC helped the Department of Agriculture make this booklet easy for consumers to get and to understand. CIC also joined the nationwide effort to save missing children by working with ACTION on the Child Safety Program Handbook, a guide for parents.

. To help consumers adjust to the breakup of AT&T and to make informed choices about long distance service, CIC coordinated the development and distribution of A Consumer's Guide to Telephone Service jointly with the Bell Atlantic Companies, the U.S. Office of Consumer Affairs (USOCA), the Federal Communications Commission (FCC), and several independent consumer groups and trade associations. This free publication provides to consumers information on developments and changes in local and long distance telephone service and helps consumers select the most cost-effective long distance carrier to meet their particular needs.

. CIC worked to develop several booklets especially for senior citizens who comprise an increasingly larger proportion of CIC's audience. Healthy Questions was published and distributed by the American Association of Retired Persons (AARP), the Federal Trade Commission (FTC), and the USOCA. This publication, directed particularly at citizens over 50 years of age, suggests how to select and make the best use of health care professionals including physicians, dentists, vision care specialists, and pharmacists. It also tells what to do about complaints regarding health care practitioners. Your Home, Your Choice describes numerous housing options for senior citizens and pays particular attention to the special needs of seniors and their families. Published by the AARP and the FTC, the booklet also includes a checklist for senior citizens and their families to help them decide on the best housing options.

During FY 1985, CIC's agency liaison staff identified and obtained 59 publications for listing in the Catalog and distribution through the CIC.

MEDIA AND MARKETING

CIC's media and marketing programs provide important Federal information to the public. At the same time they promote the availability of the Consumer Information Catalog and the specific Federal consumer publications listed in the Catalog. CIC works with radio, television, newspapers, magazines, and newsletters to let the public know about topics as varied as health care, financial planning, Federal research and benefits, and other Federal programs that are of vital importance. As a public service, the media make this information available to consumers at no cost to the government. Thus, with minimal resources, the CIC is able to reach millions of Americans in a cost-effective manner. CIC places its message with the media in the following ways:

. Feature scripts: The CIC provides feature scripts, "Federal Consumer Focus" (FCF), regularly to radio and television stations upon request. These scripts are used as a basis for call-in shows, for consumer spots, as disc jockey fill-in, or for consumer news. These scripts are an invaluable resource for consumers who rely heavily on radio and television broadcasts for daily information.

. Information releases: Upon request, the CIC provides to wire services, newspapers, magazines, and newsletters the feature release service, "New for Consumers" (NFC). These releases can generate tremendous public demand for specific publications. For example, Parade, with its circulation of 29,000,000, has mentioned booklets from the Catalog numerous times during FY 1985 generating orders for approximately 250,000 publications as a result. NFC releases have also been the source for regular items in U.S. News and World Report, Changing Times, Family Circle, Modern Maturity, Ladies' Home Journal, and Business Week, as well as in many other magazines. The releases also appear regularly in large daily and small weekly newspapers throughout the country, in membership and subscriber newsletters, and -- this year for the first time on a large scale -- in employee house organs from firms such as TWA, Shopwell, Inc., Niagara Mohawk Power Co., LA-Z-Boy Chair Company, Northwest Pipeline Corp., and many others. In addition, Associated Press, United Press International, and syndicated columnists have used the releases as the basis for numerous articles through FY 1985. NFC's have appeared in newspapers such as the Saginaw (MI) News, the Bloomington (IL) Pantagraph, the Salt Lake City (UT) Tribune and Deseret News, the Cleveland (OH) Plain Dealer, the Minneapolis (MN) Star and Tribune, and the New York (NY) Times.

. Meetings with major print media: During FY 1985, CIC staff members met with more than 150 consumer writers and editors of major magazines, newspapers, and wire services to brief them on the availability of the Catalog and specific Federal publications that would be of particular interest to their readers, and on CIC's other media services. As a result of this direct marketing, CIC has succeeded in obtaining feature mentions in numerous magazines and news syndicates. For example, CIC had publications mentioned in both the "Ann Landers" and "Dear Abby" syndicated columns resulting in orders for almost 300,000 booklets from their readers. Following staff visits with a number of writers at USA Today, CIC has had a series of booklets mentioned in the "Today's Tip-Off" feature in both the Lifestyle and Business sections.

CIC also participated with the U.S. Department of Agriculture and the Food and Drug Administration in regional meetings with food editors around the country. As a result of these meetings, along with the CIC's regular meetings with consumer writers, calls to CIC's Media Hotline requesting a variety of information have increased. These calls range from checking about the availability of publications to complex questions requiring extensive research. For instance, a recent caller from Money magazine wanted information on personal loan rates in various areas of the country. Both the Federal Reserve Board and the Bureau of Labor Statistics were able to provide information that was used in the article. Another reporter was doing a story on ordering food through the mail and wanted to know whether there were any Federal rules that applied. CIC was able to refer the writer to the booklet, Mail Order Rights, and to provide the names of experts at the Federal Trade Commission and the Postal Service who could provide more detailed answers.

. Public service materials: In addition to its ongoing program of information releases and briefings for the media, the CIC also develops special public service advertisements for television, radio, and the print media to inform the public about the availability of the Catalog. This past year CIC developed and released a new series of television public service announcements with a circa 1890's Wild West theme, depicting the arrival of the Catalog from Pueblo, Colorado to a frontier town. The campaign was received enthusiastically by station public service directors. In response to their requests, CIC sent out more than 800 tapes of the spots. Based on monitoring during the six months following release of the spots, CIC estimates that the annual total value of donated air time will be approximately $4 million.

As an outgrowth of ongoing work with the print media, CIC designed and carried out a new project to make the Catalog even more readily available to the public. In March 1985, the Portsmouth Herald newspaper of Portsmouth, New Hampshire requested CIC assistance in reprinting the Catalog as a special advertising supplement. CIC provided camera-ready copy of the current Catalog which was specially coded to measure reader response. Advertisers and readers both responded so positively that CIC acquired 10,000 copies of the reprint and mailed them to all daily and weekly newspapers across the country. Along with the reprint, CIC enclosed a letter to the advertising manager of each paper suggesting that they, too, might want to reprint an edition of the Catalog. As of the end of December 1985, 45 daily newspapers and 61 weekly newspapers with a combined circulation of more than 1.8 million have reprinted or have agreed to reprint an edition of the Catalog.

Cooperative Marketing Projects with Other Federal Agencies

During FY 1985, CIC continued its successful practice of offering copies of the Catalog to beneficiaries of other government programs. With the cooperation of the Internal Revenue Service (IRS), CIC printed 6.2 million flyers promoting the Catalog which the IRS inserted into consumer requests for supplemental tax forms. As a result of this project, consumers used Catalogs to order more than 525,000 additional publications. CIC is still receiving approximately 2,000-3,000 requests each week. The IRS has been so pleased with this project that the project is being repeated in FY 1986.

FY 1985 also saw the repeat of a successful FY 1984 cooperative project between the CIC, the Veterans Administration (VA), and the Treasury Department to make CIC publications available to veterans. An insert printed with user fee funds was placed in the November 1985 compensation, pension, and educational benefit checks going to approximately 3.4 million veterans. In addition to containing a program message from the VA, the insert offered several Federal publications and the Catalog. As a result of this promotion, veterans requested approximately 350,000 publications.

DISTRIBUTION

The CIC distribution program involves the publishing and distribution of the quarterly Consumer Information Catalog. The distribution program also directs the order fulfillment contracted out to the U.S. Government Printing Office (GPO) facility in Pueblo, Colorado. FY 1985 highlights of the CIC distribution program are as follows:

The Catalog is a quarterly listing of more than 200 free and moderately priced Federal consumer publications. During FY 1985, approximately 16 million Catalogs were distributed and the average number of publications listed per quarterly edition was 224. The number of free titles averaged 46 percent with low-priced (50¢) and regular sales publications making up 21 and 33 percent of the total respectively. The continued success of the low-priced (50¢) publication program, along with significant price reductions on regular GPO sales publications, dropped the average unit cost of all sales publications in the Catalog by 46% during FY 1985 from $2.40 to $1.30.

CIC efforts to improve the Catalog's layout, design, and ordering instructions continued through FY 1985. CIC has established a system to provide feedback on overall consumer response to revisions made in different Catalog editions. Two focus test groups on the Catalog were conducted to identify problem areas and suggest possible solutions. Also, a survey of consumers who had not followed the instructions properly was made to provide additional information. Improvements have led to increased Catalog usage as well as receipt of order mail in a more easily processable format. This results in savings through reduced handling costs and speeds the return of orders to consumers. The winter 1985-86 Catalog and the spring 1986 Catalog incorporate many of the changes suggested by the above studies. Additionally in the spring 1986 Catalog, CIC has included return envelopes (not postage-paid) in 1,000,000 copies and will maintain comparison counts to determine whether the inclusion of envelopes is cost-effective in terms of increased orders generated.

During FY 1985, consumers requested over 7 million free and sales publications from CIC. Distribution of free publications generated $292,000 in user fee revenue; distribution of GPO sales documents generated revenue of more than $1.5 million.

PLANS FOR FY 1987

The requested budget authority of $1,272,000 for FY 1987 includes an increase of $36,739 primarily to cover the higher costs anticipated for contracts under Printing and Other Services. It will enable the CIC to continue programs at levels prevailing during FY 1986. Program activities will concentrate on identifying new markets and the most cost-effective distribution channels for Federal consumer information. These efforts will include a CIC public service advertising campaign similar to the one carried out in FY 1986. Also, the CIC will continue to work closely with Federal agencies and private organizations on publication priorities, to compile and distribute the Consumer Information Catalog, and to monitor the operation of the GPO distribution facility in Pueblo, Colorado. The CIC's primary focus will continue to be on the refinement and improvement of the activities it performs.

CONSUMER INFORMATION CENTER FUND

POSITIONS BY GRADE AND AVERAGE EMPLOYMENT ADMINISTRATIVE EXPENSES

	Actual, 1985			Program, 1986			Request, 1987		
Grade	C.O.	Field	Total	C.O.	Field	Total	C.O.	Field	Total
GS/GM-15	1	-	1	1	-	1	1	-	1
14	2	-	2	2	-	2	2	-	2
13	4	-	4	5	-	5	5	-	5
12	3	-	3	2	-	2	2	-	2
11	1	-	1	2	-	2	3	-	3
9	1	-	1	1	-	1	3	-	3
7	3	-	3	4	-	4	1	-	1
6	2	-	2	2	-	2	2	-	2
5	2	-	2	-	-	-	-	-	-
Permanent Positions	19	-	19	19	-	19	19	-	19
Avg. Empl:									
Permanent	19	-	19	19	-	19	19	-	19
Other	1	-	1	1	-	1	1	-	1
TOTAL	20	-	20	20	-	20	20	-	20

CLASSIFICATION BY OBJECTS

	Actual, 1985	Program, 1986	Request, 1987
Personnel compensation: Central office	$585,786	$629,000	$621,000
Field	-	-	-
11 Total personnel compensation	$585,786	$629,000	$621,000
Other Objects			
12 Personnel benefits	79,046	75,000	73,000
13 Benefits for former personnel	-	-	-
21 Travel	17,334	19,000	19,000
Travel (motor pool)	87	-	-
22 Transportation of things	35,036	42,000	42,000
23 Rents and utility services	7,927	6,000	9,000
Payment to Federal Buildings Fund	63,458	80,000	77,000
Communication services	56,430	60,000	60,000
24 Printing and reproduction	378,816	398,059	506,000
25 Other services	92,507	220,000	233,000
26 Supplies and materials	4,695	4,000	4,000
31 Equipment	14,088	10,000	10,000
32 Lands and structures	-	-	-
Total Other Objects	$749,424	$914,059	$ 1,033,000
Total Obligations	$ 1,335,210	$ 1,543,059	$ 1,654,000
Position Data			
Average salary, GS positions	$31,605	$33,045	$34,320
Average grade, GS positions	10.21	10.68	11.11

CONSUMER INFORMATION CENTER FUND

POSITIONS BY GRADE AND AVERAGE EMPLOYMENT PRIOR YEAR ADJUSTMENTS

	Actual,			Program,			Request,		
Grade	C.O.	Field	Total	C.O.	Field	Total	C.O.	Field	Total
Permanent Positions									
Avg. Empl: Permanent Other									
TOTAL									

CLASSIFICATION BY OBJECTS

	Actual, 1985	Program,	Request,
Personnel compensation: Central office	$ 2,179		
Field	-		
11 Total personnel compensation	$ 2,179		
Other Objects			
12 Personnel benefits	206		
13 Benefits for former personnel	-		
21 Travel	-207		
Travel (motor pool)	-		
22 Transportation of things	-2,551		
23 Rents and utility services	-		
Payment to Federal Buildings Fund	-		
Communication services	210		
24 Printing and reproduction	21,754		
25 Other services	-2,952		
26 Supplies and materials	-272		
31 Equipment	-		
32 Lands and structures	-		
Total Other Objects	$ 16,188		
Total Obligations	$ 18,367		
Position Data			
Average salary, GS positions			
Average grade, GS positions			

CONSUMER INFORMATION CENTER FUND

POSITIONS BY GRADE AND AVERAGE EMPLOYMENT PUBLICATIONS DISTRIBUTION

	Actual,			Program,			Request,		
Grade	C.O.	Field	Total	C.O.	Field	Total	C.O.	Field	Total
Permanent Positions									
Avg. Empl:									
Permanent									
Other									
TOTAL									

CLASSIFICATION BY OBJECTS

	Actual, 1985	Program, 1986	Request, 1987
Personnel compensation: Central office			
Field			
11 Total personnel compensation			
Other Objects			
12 Personnel benefits			
13 Benefits for former personnel			
21 Travel			
Travel (motor pool)			
22 Transportation of things			
23 Rents and utility services			
Payment to Federal Buildings Fund			
Communication services			
24 Printing and reproduction			
25 Other services	$ 2,220,000	$ 2,459,000	$ 2,595,000
26 Supplies and materials			
31 Equipment			
32 Lands and structures			
Total Other Objects	$ 2,220,000	$ 2,459,000	$ 2,595,000
Total Obligations	$ 2,220,000	$ 2,459,000	$ 2,595,000
Position Data			
Average salary, GS positions			
Average grade, GS positions			

CONSUMER INFORMATION CENTER FUND

POSITIONS BY GRADE AND AVERAGE EMPLOYMENT SPECIAL PROGRAMS

	Actual,			Program,			Request,		
Grade	C.O.	Field	Total	C.O.	Field	Total	C.O.	Field	Total
Permanent Positions									
Avg. Empl: Permanent Other									
TOTAL									

CLASSIFICATION BY OBJECTS

	Actual, 1985	Program, 1986	Request, 1987
Personnel compensation: Central office			
Field			
11 Total personnel compensation			
Other Objects			
12 Personnel benefits			
13 Benefits for former personnel			
21 Travel			
Travel (motor pool)			
22 Transportation of things			
23 Rents and utility services			
Payment to Federal Buildings Fund			
Communication services			
24 Printing and reproduction	$2,908		
25 Other services	68,128	100,000	100,000
26 Supplies and materials			
31 Equipment			
32 Lands and structures			
Total Other Objects	$71,036	$ 100,000	$ 100,000
Total Obligations	$71,036	$ 100,000	$ 100,000
Position Data			
Average salary, GS positions			
Average grade, GS positions			

BEST COPY AVAILABLE

CONSUMER INFORMATION CENTER FUND

POSITIONS BY GRADE AND AVERAGE EMPLOYMENT TOTAL

	Actual, 1985			Program, 1986			Request, 1987		
Grade	C.O.	Field	Total	C.O.	Field	Total	C.O.	Field	Total
GS/GM-15	1	-	1	1	-	1	1	-	1
14	2	-	2	2	-	2	2	-	2
13	4	-	4	5	-	5	5	-	5
12	3	-	3	2	-	2	2	-	2
11	1	-	1	2	-	2	2	-	2
9	1	-	1	1	-	1	3	-	3
7	3	-	3	4	-	4	1	-	1
6	2	-	2	2	-	2	2	-	2
5	2	-	2	-	-	-	-	-	-
Permanent Positions	19	-	19	19	-	19	19	-	19
Avg. Empl:									
Permanent	19	-	19	19	-	19	19	-	19
Other	1	-	1	1	-	1	1	-	1
TOTAL	20	-	20	20	-	20	20	-	20

CLASSIFICATION BY OBJECTS

	Actual, 1985	Program, 1986	Request, 1987
Personnel compensation: Central office	$587,965	$629,000	$621,000
Field	-	-	-
11 Total personnel compensation	$587,965	$629,000	$621,000
Other Objects			
12 Personnel benefits	79,252	75,000	73,000
13 Benefits for former personnel	-	-	-
21 Travel	17,127	19,000	19,000
Travel (motor pool)	87	-	-
22 Transportation of things	32,485	42,000	42,000
23 Rents and utility services	7,927	6,000	9,000
Payment to Federal Buildings Fund	63,458	80,000	77,000
Communication services	56,640	60,000	60,000
24 Printing and reproduction	403,478	398,059	506,000
25 Other services	2,377,683	2,779,000	2,928,000
26 Supplies and materials	4,423	4,000	4,000
31 Equipment	14,088	10,000	10,000
32 Lands and structures	-	-	-
Total Other Objects	$ 3,056,648	$ 3,473,059	$ 3,728,000
Total Obligations	$ 3,644,613	$ 4,102,059	$ 4,349,000
Position Data			
Average salary, GS positions	$31,605	$33,045	$34,320
Average grade, GS positions	10.21	10.68	11.11

CONSUMER INFORMATION CENTER

EXPLANATION OF DISTRIBUTION BY OBJECT CLASS

11 Personnel Compensation - $621,000: Support 20 FTE, all in the Central Office.

12 Employee Benefits - $73,000: $43,000 for retirement contributions; $18,000 for health benefits; $11,000 for FICA; and $1,000 for group life insurance.

21 Travel and Transportation of Persons - $19,000: For travel by CIC staff members in promoting the Catalog and services offered to the public.

22 Transportation of Things - $42,000: For transporting Catalogs from the printing company to Washington, DC, the Colorado distribution center, and Congressional offices.

23 Rent, Communications, and Utilities - $146,000: $43,000 for postage; $77,000 for payments to the Federal Buildings Fund for office space; and $26,000 for telephone and equipment user charges.

24 Printing and Reproduction - $506,000: $471,000 for printing Catalogs; $10,000 for printing script material for radio and television stations; and $25,000 for miscellaneous printing.

25 Other Services - $2,928,000: $160,000 for preparation and distribution of public service materials for radio, television, and print media; $100,000 for special projects promoting the Catalog; $10,000 for equipment maintenance; $30,000 for computer time; $10,000 for Spanish translating service; $23,000 for miscellaneous expenses; and $2,595,000 for payments to the Government Printing Office for the cost of distributing consumer information publications.

26 Supplies and Materials - $4,000: For normal administrative supplies and materials.

31 Equipment - $10,000: For the purchase of office automation equipment.

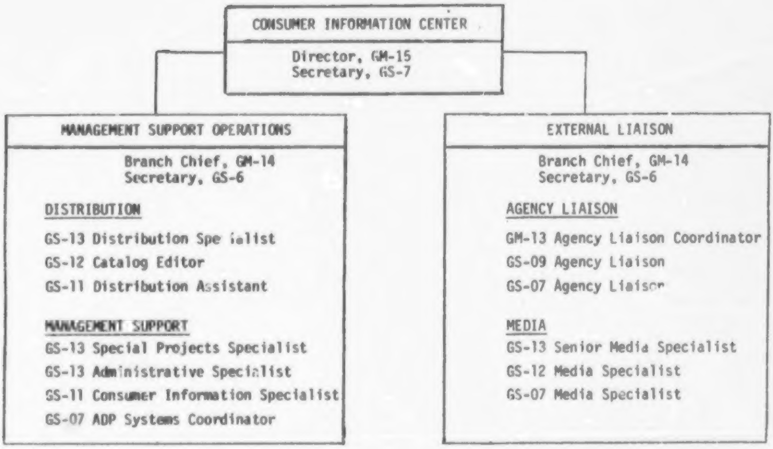
CONSUMER INFORMATION CENTER FUND
(Dollars in Thousands)

	Actual 1985	Estimate 1986	Request 1987	Change 86 vs 87
Source of Funding:				
Unobligated Balance Brought Forward	920	848*	678	-170
Unobligated Balance Rescinded	-63	-	-	-
Appropriations	1,149	1,182*	1,272	+90
Reimbursements from Agencies	2,193	2,459	2,595	+136
User Fees	292	283	300	+17
Other Income	155	8	8	-
Total Resources Available	4,646	4,780	4,853**	+73
Application of Resources:				
Administrative Expenses				
-Salaries and Benefits	665	704	694	-10
-Printing of the Catalog	380	360	471	+111
-Advertising Campaign	20	155	160	+5
-All Other	270	324	329	+5
Total Administrative Expenses	1,335	1,543	1,654	+111
Publications Distribution	2,220	2,459	2,595	+136
Special Projects	71	100	100	-
Prior Year Adjustments	172	-	-	-
Unobligated Balance Carried Forward	848	678	504	-174
Total Resources Applied	4,646	4,780	4,853**	+73

* Actual

** The requested aggregate limit of $5,200,000 (page 2) for FY 1987 exceeds the currently anticipated resource level for FY 1987 by $347,000. This overage allows for potential growth in publication development and therefore reimbursements to CIC from the private sector as well as from Federal agencies.

FY 1986 Staffing



CONSUMER INFORMATION CENTER

Director, GM-15
Secretary, GS-7

MANAGEMENT SUPPORT OPERATIONS

Branch Chief, GM-14
Secretary, GS-6

DISTRIBUTION

GS-13 Distribution Specialist
GS-12 Catalog Editor
GS-11 Distribution Assistant

MANAGEMENT SUPPORT

GS-13 Special Projects Specialist
GS-13 Administrative Specialist
GS-11 Consumer Information Specialist
GS-07 ADP Systems Coordinator

EXTERNAL LIAISON

Branch Chief, GM-14
Secretary, GS-6

AGENCY LIAISON

GM-13 Agency Liaison Coordinator
GS-09 Agency Liaison
GS-07 Agency Liaison

MEDIA

GS-13 Senior Media Specialist
GS-12 Media Specialist
GS-07 Media Specialist

All professional staff members GS 7-13 have agency liaison responsibilities.

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WEDNESDAY, FEBRUARY 26, 1986.

CONSUMER PRODUCT SAFETY COMMISSION

WITNESSES

CAROL G. DAWSON, ACTING CHAIRMAN
TERRENCE SCANLON, COMMISSIONER
STUART STATLER, COMMISSIONER
SAUNDRA BROWN ARMSTRONG, COMMISSIONER
LEONARD DeFIORE, EXECUTIVE DIRECTOR
TOM MURR, DEPUTY EXECUTIVE DIRECTOR
DANIEL R. LEVINSON, GENERAL COUNSEL

OPENING REMARKS

Mr. SABO. Welcome. The chairman offers his apologies. He has a conference so he can't be with us this afternoon.

The 1987 request is down again for CPSC to $33 million and 540 FTE, which is well below both the 1986 level and the original 1987 CPSC request to OMB in October.

Commissioner Dawson, we welcome you here in your new role. We appreciate your opening statement. We will put the entire statement in the record if you want to shorten it, and if any other Commissioners have a statement, we will put it in the record. Welcome.

Ms. DAWSON. Thank you, Mr. Chairman.

I would like to introduce the other members of the Commission here with me today. On my left is Commissioner Saundra Armstrong; next to her, Commissioner Stuart Statler; and next, Commissioner Terrence Scanlon. Also at the table are Deputy Executive Director Tom Murr; Executive Director Leonard DeFiore; and General Counsel Daniel Levinson.

I will begin with a short opening statement.

It is a pleasure to be here before you this afternoon to discuss the CPSC budget request for fiscal year 1987. I will summarize our opening statement.

SUMMARIZED STATEMENT

Mr. SABO. Fine.

Ms. DAWSON. The Commission's fiscal year 1987 budget request is $33 million and 527 FTEs, excluding 13 FTEs which are ceiling exempt. This figure, arrived at in negotiations with the Office of Management and Budget, represents a reduction from the Commission's fiscal year 1986 appropriation level of $36 million and ceiling of 568 FTEs.

With prudent and careful management, however, we are convinced that we can achieve our statutory objectives with this appropriation. In order to meet the fiscal year 1987 target, the Commission has taken a very close look at its entire budget. It is safe to say that absolutely no aspect of Commission operations or expenditures was overlooked in our efforts to meet the budget target. The budget request you have before you is a realistic and honest effort to meet the agency's obligations within its budgetary constraints.

You will note, when comparing our fiscal year 1987 budget request to our fiscal year 1986 request, that we have reduced managerial staff, clerical support, operating costs, and contracts. Nearly all of the Agency's ongoing activities and most of the hazard programs have been reduced from the fiscal year 1986 appropriation level. These changes are detailed in the budget request we have submitted to the subcommittee.

The Commission's budget preparation began with its selection of priority projects, a decision which the collegial body reached last summer. Those decisions were made with the benefit of public participation in open hearings. We tried to identify projects that present the most serious safety problems for consumers and at the same time permit us to achieve measurable results with the available resources.

These projects were selected assuming a budget somewhat higher than our current request of $33 million. It is our intent, however, to keep the priority projects fully funded to assure that we meet our objectives within the shortest possible time frame.

The six priority projects the Commission selected for 1987 are: all-terrain vehicles; child drownings; fire toxicity; poison prevention; riding mowers; and safety for older consumers.

The Consumer Product Safety Commission engages in many important activities above and beyond its priority projects. These include hazard analysis and injury data collection, information and education, section 15 compliance and enforcement activities, voluntary standards work, and field activities. We have had some notable successes in these areas during the past year. Those are detailed in the full text of our opening statement and in our budget request and they include our successful effort to obtain a voluntary standard to address chain saw kick-back, our work on upholstered furniture, and separate, national conferences on pool safety and safety for older consumers.

We would like to raise one final matter, Mr. Chairman. There is one item that does not appear as a request in our fiscal year 1987 budget: the Agency's work on the Cigarette Safety Act of 1984. As you know, the Act requires the Chairman of CPSC, the Department of Health and Human Services and the U.S. Fire Administration to determine if industry can develop cigarettes less prone to causing fires.

Although the Act names the Chairman of CPSC as chairman of this interagency committee, the statute vests no responsibility or jurisdiction for this activity with CPSC or any single Federal agency.

Moreover, the Act includes no specific provision for funding. To date, nearly $2 million has been spent or obligated for the cigarette safety program, of which $1.65 million has come from funds appropriated to CPSC for this purpose or from the agency's own operating funds.

Besides CPSC, only the U.S. Fire Administration has provided funds, and then only $150,000. We are told that an additional $605,000 will be needed to finish the cigarette safety program.

The budget before you does not contain a request for that additional money. Given the leanness of our budget request in relation to our considerable statutory responsibilities, we believe the money should come from elsewhere. We would appreciate it if this subcommittee could look further into the matter.

Thank you for giving us the opportunity to appear before you today and present the Consumer Product Safety Commission's appropriations request for fiscal year 1987.

Mr. Chairman, that is the Commission's statement; I do have some remarks of my own that I would like to make expressing my personal views on the areas of the budget I feel merit your close attention.

[The statement of Ms. Dawson follows:]

U.S. CONSUMER PRODUCT SAFETY COMMISSION
WASHINGTON, D.C. 20207

OPENING STATEMENT
BEFORE THE
HOUSE APPROPRIATIONS SUBCOMMITTEE ON HUD AND INDEPENDENT AGENCIES
FEBRUARY 26, 1986

Thank you Mr. Chairman. It is a pleasure to be before you this morning to discuss the U.S. Consumer Product Safety Commission's appropriations request for Fiscal Year 1987.

The Commission's FY 87 budget request is $33 million and 527 FTEs. This figure, arrived at in negotiations with the Office of Management and Budget, represents a reduction from the Commission's FY 86 appropriation level of $36 million and ceiling of 568 FTEs.

With prudent and careful management, however, we are convinced that we can achieve our statutory objectives with this appropriation. In order to meet the FY 87 targets, the Commission has taken a very close and deliberate look at its entire budget. It is safe to say that absolutely no aspect of Commission operations or expenditures was overlooked in our effort to meet the budget target. The budget request you have before you is a realistic and honest effort to meet the agency's obligations within its budgetary constraints.

You will note, when comparing our FY 87 budget request to our FY 86 request, that we have reduced managerial staff, clerical support, operating costs, and contracts. Nearly all of the agency's ongoing activities and most of the hazard programs have been reduced from the FY 86 appropriation level. These changes are detailed in the budget request we have submitted to the Subcommittee.

The Commission's budget preparation began with its selection of priority projects, a decision which the collegial body reached last summer. Those decisions were made with the benefit of public participation in open hearings. We tried to identify projects that present the most serious safety problems for consumers and at the same time permit us to achieve measurable results with the available resources.

These projects were selected assuming a budget somewhat higher than our current request of $33 million. It is our intent, however, to keep the priority projects fully funded to assure that we meet our objectives within the shortest possible time frame.

The six priority projects the Commission selected for 1987 are:

- All-Terrain Vehicles. Through our National Electronic Injury Surveillance System (NEISS), which makes projections based on reports from 64 emergency rooms, the Commission estimates that 66,900 hospital emergency room-treated injuries were associated with ATVs in 1984, with an estimated 78,000 more in the first nine months of 1985. Since the estimated 1984 injuries were almost two-and-a-half times the number of injuries estimated for the previous year, and more than seven times the number from the year before that, it seemed clear that this was a safety problem that deserved priority status. The Commission actually began its work on this project during FY 85 through a reprogramming of its resources.

  During FY 1985, the Commission conducted public hearings on ATVs in Jackson, Mississippi; Concord, New Hampshire; Dallas, Texas; Milwaukee, Wisconsin; and Los Angeles, California. Another hearing is scheduled for Anchorage, Alaska in late March of this year.

- Child Drownings. As a result of a conference jointly sponsored by the Commission and industry, the Commission obtained sufficient information in FY 85 to prompt it to select child drownings as an area deserving of special attention. Each year, over 600 people drown in backyard swimming pools in the United States. Of these, almost 300 are children under five years of age. We estimate that over 2,000 other children under five are treated every year in hospital emergency rooms for injuries associated with near-drownings. A significant number of these suffer long-term or irreversible damage. The Commission intends to study why such drownings are occurring at this alarming rate, as well as the feasibility of correcting the hazard by means of barriers, alarms, increased consumer awareness of the problem, or by other means.

- Fire Toxicity. The Commission will continue its work with other federal, state, and local government units, and industry, to evaluate methods of reducing the number of deaths and injuries caused by toxic fumes generated during residential fires. The agency will work to produce a fire hazard model to enable us to make recommendations to industry on product modifications to reduce this hidden danger, or take other action if necessary and appropriate.

- Poison Prevention. In 1986, the 25th anniversary of National Poison Prevention Week, the Commission can look back with pride at the significant strides this nation has made in reducing the number of deaths and injuries associated with accidental ingestions of household substances. But there is still much to be done. In 1983, there were 55 deaths resulting from the accidental ingestion of prescription drugs and household chemical products. In 1984, an estimated 156,000 children under the age of 5 were treated in hospital emergency rooms for accidental ingestions, chemical burns, and other acute injuries associated with household substances. The Commission's project for FY 87 is designed to reduce children's exposure to hazardous household chemicals by determining the effectiveness of current special packaging regulations and determining whether unregulated chemical products should also be packaged in child-proof containers.

- Riding Mowers. There are some 100 deaths every year associated with riding mowers and garden tractors. In just one year, 1984, an estimated 50,000 medically-attended injuries were associated with riding mowers. In FY 1986, the Commission completed a preliminary hazard analysis on riding mowers, conducted engineering tests, and continued work on studying the dynamic stability of riding mowers. In FY 1987, the Commission proposes to finish its analysis of injury data, evaluate a field test developed in cooperation with industry, and complete its dynamic stability testing of riding mowers.

- Safety for Older Consumers. Our nation's elderly are particularly vulnerable to accidental injury, given their loss of vision and muscular agility, slowed reactions to stimuli, and greater tendency for bones to break easily and heal slowly. Injuries among the elderly are also more likely to be fatal than among other population groups. As recently as 1981, medical expenses for the elderly made up one third of the nation's total health expenses of $225 billion. Given the danger to our older citizens from injuries caused by consumer products, and the cost to society, the Commission has had a continued interest in this area.

As a result of a national conference on older consumers held in September of 1985, the Commission obtained information that led us to conclude that further work needs to be done to improve the safety of products used by the elderly. In FY 1987, the agency will continue to promote home safety for older consumers to the public and encourage replication of the home safety project through national media, cooperative efforts with major national organizations and businesses, and distribution of information to the public. In addition, the Commission will explore ways to implement recommendations presented at the September, 1985 National Conference on Safety for Older Consumers, as well as participate in and monitor related voluntary standards efforts.

Each year the Consumer Product Safety Commission engages in many important activities above and beyond its priority projects. The Commission carries out several ongoing activities that constitute the basic building blocks of product safety and that precede any project work. These include hazard analysis and injury data collection, information and education, compliance and enforcement, voluntary standards work, and field activities. We have had some notable successes in these areas during the past year, and I would like to share them with you.

One of our most notable recent successes is the completion of the agency's work on a chain saw standard. Together with the American National Standards Institute, the Commission succeeded in obtaining industry agreement to produce chain saws that greatly reduce the amount of kickback. This achievement will result in an estimated 80 percent reduction in the number of injuries associated with chain saw kickback.

Another voluntary standards effort that has made significant progress in the last year is our work with the Upholstered Furniture Action Council to address the issue of the flammability of upholstered furniture. That effort is yielding improvements in fabrics and construction methods, which in turn will lead to a reduction in the number of deaths and injuries caused by smoldering cigarettes igniting furniture.

The Commission plans to work on more than 50 other voluntary standards in FY '87 and requests sufficient resources to carry out this cost-effective activity.

Section 15 of the Consumer Product Safety Act is one of the tools the Commission uses to protect consumers. Section 15 requires manufacturers, distributors and retailers to notify the Commission if they obtain information which reasonably supports the conclusion that one of their products either contains a defect which could create a substantial hazard or fails to comply with a safety rule issued under the Consumer Product Safety Act. Through the provisions of Section 15, the Commission can swiftly identify and isolate hazardous products which can be removed from the marketplace without disrupting an entire industry. Since 1973, the Commission's use of Section 15 has resulted in the initiation of over 1,300 recalls or other corrective actions involving over 200 million product units.

The Commission's Section 15 work during the past year has produced some notable results, including the near doubling of Section 15 reports from the two previous years, 82 recalls of regulated products, and the opening of files on 100 other products that may represent a substantial product hazard. In several other instances, where a product hazard did not require a recall but still necessitated other remedial action to protect the public, the Commission obtained action leading to the labeling or redesigning of a product, or an improvement in the manufacturer's quality control.

On another front, the Commission began working with the National Spa and Pool Institute (NSPI) to address the serious problem of spa- and pool-related drownings. In May of 1985, the agency co-sponsored a public conference along with NSPI to discuss ways of dealing with the situation. The discussions at that conference, and the information that it yielded, led the Commission to choose child drownings as one of its FY 87 priorities.

The past year has also seen a concerted Commission effort to address the deaths and injuries associated with the use of all-terrain-vehicles (ATVs). Although the ATV project was not initially a Commission priority for FY 86, simply because of the speed with which the matter came to our attention, we have shifted our FY 86 resources to meet the new problem. This Subcommittee was kind enough to approve our reprogramming request for the ATV work. For FY 87, as our discussion about the priority projects noted, the Commission intends to continue its work on this vital matter.

One other accomplishment from last year that bears noting is the agency's rejuvenation of its state and local contracts program. We have found our work with state and local safety officials, and others, to be a cost-effective way to get the Commission's safety message to the public while receiving useful services from these in return. We would like to see that program continued at the level of funding requested.

These are just some of the agency's accomplishments from the past year. The accomplishments we have discussed today are the result of routine ongoing agency work, the backbone of our activities. We ask that you provide us the resources to continue the basic work that achieves the kinds of successes we have mentioned.

We would like to raise one final matter, Mr. Chairman. There is one item that does not appear as a request in our FY 87 budget: the agency's work on the Cigarette Safety Act of 1984. As you know, the Act requires the Chairman of CPSC, the Department of Health and Human Services, and the U.S. Fire Administration to determine if industry can develop cigarettes less prone to causing fires. Although the Act names the Chairman of CPSC as Chairman of this interagency committee, the statute vests no responsibility or jurisdiction for this activity with CPSC or any single federal agency. Moreover, the Act includes no specific provision for funding.

To date, nearly $2 million has been spent or obligated for the cigarette safety program, of which $1.65 million has come from funds appropriated to CPSC for the purpose or from the agency's own operating funds. Besides CPSC, only the U.S. Fire Administration has provided funds, and then only $150,000. We are told that an additional $605,000 will be needed to finish the cigarette safety program, but the budget before you does not contain a request for that additional money. Given the leanness of our budget request in relation to our considerable statutory responsibilities, we believe the money should come from elsewhere, and we would appreciate it if this Subcommittee could look further into the matter.

Thank you for giving us the opportunity to appear before you today and present the Consumer Product Safety Commission's appropriations request for Fiscal Year 1987.

HEADQUARTERS CONSOLIDATION

Ms. **Dawson**. First of all, the budget before you assumes that the Agency will make substantial cuts in its common costs. The most logical way to do this would be to consolidate our two Washington area headquarters offices. This would involve moving the Commissioners and their staffs out of the Logan Building in downtown Washington and placing them in Bethesda along with the bulk of the agency staff.

By doing this, the Agency savings would be significant: approximately $350,000 or more per year, an amount that would fund more than a third of all the contracts supporting our six priority projects. This amount does not even take into account the increased managerial and communications efficiency we will achieve by having the Agency together in one building.

The Commission's presence in downtown Washington does nothing to ensure consumer safety, and the money saved by consolidation would be better spent on hazard programs that do have a direct impact on consumer safety.

Last year I wrote a letter to OMB regarding this subject. It details the cost savings the Agency could achieve by simply consolidating its offices. With your permission, I would like to submit that letter to you for the record.

Mr. **Sabo**. Fine.

[The information follows:]

U.S. CONSUMER PRODUCT SAFETY COMMISSION
WASHINGTON, D.C 20207

June 6, 1985

Honorable David A. Stockman
Director
Office of Management and Budget
Old Executive Office Building
Washington, D.C. 20503

Dear Mr. Stockman:

The Chairman of the Consumer Product Safety Commission, having agreed to submit to you by June 3, 1985, a plan for consolidating the Commission's Washington and Bethesda staffs, has written to you by letter of May 29, 1985, outlining such a plan.

The Commission voted May 8, 1985, to approve, by a vote of 3 - 1, the plan as outlined by the Chairman. I feel compelled to address this issue separately, since mine was the dissenting vote. I do so not to question my colleagues' motives in this matter, since I know of their strong feelings on the subject, but rather to explain why I voted against the plan as adopted.

I oppose the plan since it does nothing, in my view, to consolidate the agency into one facility and ignores fiscal reality. The proposal is based on the concept of cutting staff space in the Bethesda office and some warehouse space that has already been cut.

It contemplates no reduction to Commissioners' space in downtown Washington even though those offices average 400 square feet per person, including secretaries and Commissioners' special assistants. I believe my colleagues' proposal side steps both the necessity for cost savings and the demand by OMB and Congress to consolidate this agency's staff.

I propose that the Commissioners and their immediate staffs relocate in the Westbard Avenue building in Bethesda. The figures prepared by the Commission staff speak for themselves. A move to Bethesda would save the agency $331,000 in rent in addition to $60,000 in miscellaneous expenses, a total of approximately $390,000 annually. If we were also to give up additional space in Bethesda, as we could do without impairing the ability of the agency to function effectively, an additional $160,000 will be saved, making the total savings for a consolidated Commission over $550,000 a year, or more than four times what the Commission is proposing to save now. Those savings could be applied to our hazard prevention programs, which should be our primary consideration in any budget decision. (It is interesting to note that the luxury of maintaining offices downtown requires funding in excess of twice as much as is available for contract funds for any single hazard program, including priority projects.)

In contrast, moving the Commissioners' offices to Bethesda involves a one-time cost of $55,000, leaving a first-year savings of $495,000. (This figure excludes the hidden costs of significant salary expenditures spent to have senior staff "cooling their heels" in Washington twice weekly, or more, to be on call in case they are needed for a Commission meeting). As I said before, the numbers speak for themselves.

The arguments advanced opposing the Commissioners' move from downtown Washington are:

1. The Commission would suffer from having no presence in downtown Washington.
2. The Chairman and Commissioners would no longer have easy access to Capitol Hill and other federal agencies.
3. Access to Commissioners by media, industry, public advocacy groups and the general public would become more difficult.

In my opinion, none of these arguments are persuasive. The first is meaningless. Moving the Commissioners' offices some eight miles northwest of the city will have no discernible effect on product safety. As for the second, Commissioners' visits to the Hill and other agencies occur infrequently. Mass transit in the metropolitan area is more than adequate to accommodate our needs as well as the needs of those who wish to meet with the Commissioners. If product safety issues for which the Commission seeks media coverage are not newsworthy enough to gain attention if they emanate from a suburban location, then I believe we should question whether they deserve such publicity at all. I would also note that several regulatory agencies successfully maintain suburban offices without experiencing the consequences feared by the other Commissioners. The Food and Drug Administration and the Nuclear Regulatory Commission are both located in suburban Maryland.

In contrast, the advantages of co-locating in Bethesda are:

1. Commissioners would gain easier in-house access to appropriate technical personnel.
2. Consolidating staff would promote more efficient, effective operations.
3. Travel costs and lost staff time between Bethesda and downtown Washington, D.C. for Commission meetings would be eliminated.
4. Duplicative administrative costs would be eliminated.
5. Rental costs would be substantially reduced.
6. There would be a significant reduction in the "square foot per person" ratio, to bring the agency closer in line with the objectives of the Administration.

I am convinced that geographical co-location will promote better and more effective communication between the staff and the Commissioners, an ingredient which, to a large extent, is now discouraged by the physical separation of the offices.

If you would be interested in seeing a more exhaustive breakdown of co-location options and their respective costs, I would be happy to provide it.

In conclusion, consolidation of the Commission in the Bethesda office is in the public interest. I urge you to continue to support such an approach.

Sincerely,

/s/

Carol G. Dawson
Commissioner

cc: Mr. John Cogan

FUNDING PRIORITIES

Ms. DAWSON. Second, the priorities for fiscal year 1987 were chosen when the Commission assumed it would have a budget somewhat higher than our final mark leaves us. That is no longer the case, yet, because of our prior decision, we are virtually locked into fully funding the priority projects. As an example, at a funding level of $36 million it may be entirely appropriate to give priority status to a project like the fire toxicity program, a long-term, extremely expensive research effort which between 1983 and 1987 has been budgeted for nearly three quarters of a million dollars in contracts and approximately $960,000 in salaries.

At a $33 million level, however, it may well be that an agency such as ours, with its limited resources, is not the proper place to carry on such an ambitious and complex research effort. The funds allocated to that program because of its priority status could be better spent elsewhere.

Accordingly, I believe that the Agency must have more latitude to adjust its priorities on the basis of its final budget mark.

Finally, in my role as Acting Chairman, I have a managerial concern. The budget document before you assumes that we will be able to do everything we have done in the past, although at reduced levels. Clearly the time has come for the Commission to make some hard choices.

It must select only a few projects and do them well, rather than trying to be all things to all people. It must emphasize activities such as the enforcement of Section 15 of the Consumer Product Safety Act to remove defective, hazardous products from commerce, and it must maintain its flexibility to deal with unanticipated consumer hazards.

I have, therefore, directed the staff to engage in contingency planning to see how we can best maximize whatever resources we are given by Congress. I hope to see an agency that can efficiently meet its legislative mandate within whatever constraints Congress chooses to set.

That concludes my remarks, Mr. Chairman, and I believe my colleagues may wish to make some statements of their own.

Mr. SABO. If they have statements we will put them in the record, unless there is something with burning urgency.

Ms. ARMSTRONG. I will submit my statement for the record. Thank you.

[The statement of Ms. Armstrong follows:]

U.S. CONSUMER PRODUCT SAFETY COMMISSION
WASHINGTON, D.C. 20207

Statement of Commissioner
Saundra Brown Armstrong

before the

Subcommittee on HUD-Independent Agencies
Committee on Appropriations

United States House of Representatives

Wednesday -- February 26, 1986
Room H-143 — U. S. Capitol
Washington, D.C.

Mr. Chairman and Members of the Subcommittee.

I, too, would like to thank you for this opportunity to appear before you today in support of the President's 1987 budget request for the Consumer Product Safety Commission. While I do not plan to submit separate testimony on the proposed budget, I would like to make a brief comment at this time.

The Commission statement which was read by Acting Chairman Dawson, detailed the Commission's accomplishments of the last year, as well as our plans and priorities for fiscal year 1987. This recitation of past and anticipated achievements serves to illuminate the major challenge which the Commission will confront in FY 87 — namely, to continue to operate effectively and to discharge our responsibilities consistently while sustaining a significant reduction in our operating budget.

I supported this budget reduction because I considered it appropriate in view of the intensified efforts by the President and Congress to reduce the national deficit. Despite the impendent decrease in our overall resources, I believe that the abiding commitment of our dedicated professional, technical, and support staff, in addition to our on-going efforts to streamline our operations, to control spending, and to sharpen the focus of our programs will enable the Commission to address the most significant and the most pressing consumer product safety needs, and thereby continue to fulfill its mandate — to protect American consumers from unreasonable risks of injury associated with consumer products.

In this context, I intend to lend my full support to the implementation of this budget and other directives given to this Commission by Congress. I will be happy to respond to your questions concerning the views I have expressed, the budget request, or Commission activities.

Thank you.

Mr. **Statler**. I don't have a prepared statement, Mr. Chairman, but I want to go on record as asking that the letter I sent to the Chairman and to the Ranking Minority Member, Mr. Green, be inserted in the record.

Mr. **Sabo**. It will be.

[The information follows:]

U.S. CONSUMER PRODUCT SAFETY COMMISSION
WASHINGTON, D.C. 20207

February 21, 1986

The Honorable Edward P. Boland
Chairman
Subcommittee on HUD-Independent Agencies
of the Committee on Appropriations
2426 Rayburn House Office Building
Washington, D.C. 20515

Dear Congressman Boland:

As you know, CPSC is required by law to prepare an annual budget request for submission to Congress and the Office of Management and Budget ("OMB"). In advance of CPSC's budget hearing before you next week, I want you to know that last fall, despite prolonged consideration, the Commission found itself unable to agree upon the amount and focus of our budget request for FY'87. Solely to provide the majority vote necessary to comply with the law, I reluctantly voted to transmit a budget request of $35.6 million and 568 full time employees ("FTE's") that I believed, then as now, would prevent us from adequately protecting the American public against unreasonable risks of injury and death from consumer products. Subsequent events confirmed my worst fears. For the reasons set forth below, if Congress goes along with the grossly underfunded OMB budget marks of $33 million and 527 FTE's, it will make a mockery of our safety obligations to this Nation and signal the irreversible decline of this agency and the vital function it serves.

INADEQUATE FUNDING AND STAFF RESOURCES

CPSC's original FY'87 budget submission to OMB requested $35.6 million and 568 FTE's -- figures that are woefully inadequate to fulfill our vital mandate from Congress. Even those Commissioners who endorsed the submission viewed this funding and personnel request as "the minimum necessary to continue a viable product safety program."

A glance back at CPSC's recent history shows that this agency already has been the subject of draconian budget slashes resulting from both reductions in amounts authorized from year to year and repeated failures to compensate for the effects of inflation. CPSC's very first budget, back in 1974, provided for just under $31 million. The proposed FY'87 budget before you today of $33 million represents a astonishing decline of 55 percent from this amount when inflation is factored in. Also adjusting for inflation, compared to our FY'86 appropriation, the FY'87 budget is down 11 percent; compared to our funding level just five years ago in FY'81, before the start of this Administration, our budget is down a whopping 34 percent.

Staff also has been dismembered: the proposed level of 527 FTE's for FY'87 represents a slash of 462 persons, or 41 percent, from the 889 FTE's who helped carry out this agency's mission as recently as in FY'81.

The chart below demonstrates all too clearly that over the last 13 years, CPSC has borne far more hurtful cuts than any other health and safety regulatory agency in the federal government.

Agency	FY'74 Funds	FY'87 Funds	FY'87 Funds Converted to FY'74 Dollars	Real % Increase or Decrease
EPA	$528,000,000	$2,426,466,000	$1,020,124,000	+93%
OSHA	70,408,000	225,811,000	94,934,000	+35%
FDA	160,590,000	423,600,000	178,088,000	+11%
FTC	32,334,000	69,045,000	29,028,000	-10%
NHTSA	142,715,000	193,930,000	81,531,000	-43%
CPSC	30,900,000	33,000,000	13,874,000	-55%

Slicing CPSC's budget by more than half might be appropriate if changes in the laws we administer meant that there was only half as much for the agency to do. But that's hardly the case. Instead, each year we find altogether new and previously unsuspected hazards that require our attention. Cuts of the magnitude I have described mean that we are unable to assess emerging risks from new products, or even identify them in the first place. In turn, more consumers inevitably will be maimed and charred and killed before we can even begin to seek solutions.

Some hazards will not receive the attention they demand, while investigations of others are tabled indefinitely for want of funds. As our fast-disappearing staff is spread more thinly in each succeeding year, we are at a point where we can't effectively target new trouble spots or correct those already at hand.

FAILURE TO ANTICIPATE FUTURE RISKS

The budget before you meets OMB's arbitrary funding and staffing mark for CPSC. But it fails to adequately fund CPSC's front-line effort against emerging risks, namely its program of New Product

Identification ("NPI"). This effort serves as our "early warning" system by scanning the marketplace for hazards presented by products first being introduced. Upon indications of a possible hazard, early-on the NPI team develops remedial strategies to reduce or eliminate the risk -- ideally, before tragedies occur.

Recent successes include efforts with individual manufacturers and whole industries to address amputation and laceration hazards from brushcutters and snowthrowers; work with Underwriters Laboratories ("UL") to upgrade the safety standards of electric blankets, quartz heaters, LP cabinet heaters, and a host of other auxilliary heating devices; and efforts with industry to redesign recliner chairs against head and neck entrapment of children, and bunk beds against the dangers of collapse.

Perhaps the most outstanding recent success involves the serious risks associated with all-terrain vehicles (ATV's). In FY'84, NPI first spotted the fast-rising number of tragedies linked to increased sales and use of ATV's. This warning led to an intensive scrutiny and eventually to our current top-priority project to redress the startling number of serious injuries and deaths, especially to children, associated with the rollover, tipover and flipover of ATV's.

Despite this record of achievement, the budget before you fails to adequately fund this critical program aimed at emerging risks. No funds at all were set aside for contract support, and less than one percent of the agency's personnel resources are directly devoted to this effort.

This budget also utterly fails to designate sufficient resources for strategic planning efforts. Experience suggests that as it proceeds in its second decade, the CPSC should devote resources to develop a blueprint which looks beyond simply our next annual budget submission. We ought to track the new technologies -- such as microcircuitry, lasers, fiber-optics, computers and robotics -- that increasingly are finding their way into consumer products or the way in which they are manufactured. We need to assess the risks, as well as the benefits, these technologies portend so as to avert problems before they arise. Yet the proposal before you fails to provide for any long-term strategic planning, or the nurturing of CPSC training and expertise in these fast-evolving technologies. We are charged by statute with anticipating serious risks to consumers and preventing tragedies. Our failure to address and fund such long-term planning undermines our ablity to live up to that mandate.

CHILDREN AT RISK

Other obvious flaws in this budget directly strike at the most vulnerable of all consumers -- our children. Three areas of mounting concern bring this home: structural failure of new-style bicycles; disfigurement, paralysis and death from diving incidents in backyard swimming pools; and entrapment fatalities from garage door openers.

- Bicycle Structural Failures

Each year, from 1980-1984, we've seen some 550,000 bicycle-related injuries treated in hospital emergency rooms. In 1983 (the last year for which comprehensive data is available), CPSC's death certificate file recorded 93 bicycle-related deaths; two-thirds involved head injuries. An outside users group, Bicycle USA, has implored CPSC to make bicycle safety a priority; our staff developed a five-year plan to significantly reduce the risks. But we can't implement the plan because of our budgetary fix.

There is a dire need to upgrade the "current" (viz. 1976) bicycle safety standard to address the mushrooming growth of off-road ("BMX") bicycles. These bikes routinely undergo stresses never even contemplated when we issued the mandatory rule. Staff has learned that some components of bicycles that meet the current standards in all respects nonetheless fail in use. (At this very moment, at least three manufacturers have just recalled BMX bicycles to replace the main structural stems that can fail catastrophically, severing the stem from the handle bars.) We also need to upgrade criteria for accessories such as helmets and goggles, particularly in light of the high incidence of deaths due to head injuries.

To do this, staff requested a meager 28 staff months and $140,000. From its otherwise sparse resources, the Commission settled on a truncated funding level of 24 staff months and $50,000 -- about a third of the amount requested. This limited commitment will barely scratch the surface of the complex engineering, human factors and injury work that must be done. At that level of funding, it will take far too long before we can come up with recommendations to make bicycles really safer. And so, the CPSC can't now even begin to contemplate remedial measures to safeguard America's bicycle riders . . . mostly young children.

- Diving Tragedies

Although the Commission endorsed efforts to reduce child drownings as a FY'87 project, it omitted work to reduce the high number of diving injuries in backyard pools. Over 300 Americans -- mostly teenagers -- are paralyzed each year from diving incidents. More than half of the injuries result in quadriplegia; and 80 percent of the victims are young males.

Our staff sought a modest 13 staff months and $25,000 to assess ways of alleviating this toll. The work would have served as the basis for further studies by various panels under the aegis of the National Pool and Spa Conference (which CPSC co-sponsored last spring) to develop remedial strategies. Based on conversations I had with representatives of the industry, safety consultants, private attorneys, and our own staff, far more financial and staff support is needed for this work. But my plea fell on deaf ears -- not because the project was unimportant, but because the funding and staff resources were not otherwise available once we were so arbitrarily restrained by the OMB mark.

While one Commissioner agonized over the possibility that CPSC might, in the course of this effort, investigate and make recommendations for improving the "design" of swimming pools, the whole diving project was shelved. In these days of "deregulation," even the possibility of assessing product design seems to evoke the heebie jeebies in some of my colleagues who won't acknowledge that this is precisely what the agency was set up to do.

- Automatic Garage Doors

In the last four years alone, 23 children aged nine or younger have died tragically -- sometimes only yards away from their parents -- in incidents involving automatic garage doors. Too often, children play a deadly game of "chicken," triggering the wall-mounted control or the remote control and then racing under the descending door. Tragedies also occur when a child operating the switch unintentionally traps a playmate, or when some object in the garage falls against and activates the switch. Automatic reverse mechanisms, which should avert these tragedies, must be regularly adjusted to, and maintain, close tolerances if they are to function properly in an emergency. But the death toll indicates that they don't always work.

The industry, to its credit, has twice tightened up on voluntary standards to help prevent entrapments. But millions of door openers were installed prior to the effective date of the most recent change in 1982. Entrapments will continue until some better means of child-resistant protection is implemented for current production, and retrofitted for earlier models.

Our original FY'87 budget included 17 staff months to evaluate inexpensive and effective means to reduce entrapment incidents from door openers that predate the 1982 standard revisions. Staff planned to consider the cost and effectiveness of simple retrofit devices, as well as existing and alternative sensor mechanisms, including direct sensors (akin to the rubber bumpers found on elevator doors). The paltry 5 staff months in the budget before you hardly represents a genuine commitment; it is more on the order of a pretense. And pretenses won't save lives.

CHEMICAL RISKS

The chemical hazards work of the Commission is also given short shrift in the budget proposal before you. Certain chemicals, known as "strong sensitizers," cause severe allergic reactions in susceptible persons. At present, CPSC requires special labeling for only five such substances found in consumer products. We are now evaluating four others. In FY'87, we wanted to take further action on four sensitizers. This project has been axed. It seems penny wise and pound foolish to abandon these efforts, especially after we've worked out the procedures to promptly evaluate sensitizers and even completed significant research on certain ones.

Proposed projects to assess the genetic and carcinogenic effects of other chemicals and particulates also got shelved. So were programs to ascertain the human health risks presented by glycol ethers and paradichlorobenzene ("PDCB") in indoor air. Some glycol ethers are known to cause birth defects in laboratory animals. Similar compounds are widely used in such products as window and oven cleaners, rug shampoos, and paints. More than 53 million pounds of PDCB are produced annually; much of it finds its way into America's homes in mothballs, diaper-pail odorants and bathroom deodorizers. Each is believed to contribute to the decline in the quality of our indoor air.

The decision to curtail work on these indoor air pollutants is especially ironic because the last Conference Report on CPSC by the HUD-Independent Agencies Appropriations Committees directed us to increase the funding and staff devoted to indoor air quality. Under this budget, there is not one cent set aside for field testing or determining human exposures to these toxic substances.

FIRE HAZARDS

The agency's fire hazards programs are decimated. This includes the FY'87 fire toxicity project which is an agency priority. Contrary to our own budget guidelines, the Commission failed to fully fund this priority. Staff originally sought 88 staff months and $240,000 to find out what can be done now to keep so many people from succumbing to smoke inhalation from use of highly toxic materials in construction and home furnishings. After staff was pressured to cut back, funding for the project shrank to 69 staff months and $175,000, even though it's clear these slashes mean slower action -- and more lives lost. The Commission rejected giving this project the support it needs to help save those lives.

Other fire hazard projects were axed entirely. Our efforts to reduce the risk of fires from electric heat tapes (which are wrapped around water pipes to keep them from bursting in cold weather) are a thing of the past. Too often, circuit breakers fail to "trip" when there is an overload or defect in a household electrical system. We had hoped to determine how and why they fail, and share the fruits of our efforts with UL and affected industries to correct the problem. Now, we won't. We will also close our eyes to the deadly fires and explosions that may directly result from the widespread overfilling of propane ("LP") cylinders used in backyard gas barbecue grilles.

And the list goes on. Work is halted on preventing kerosene heaters from "flaring up" -- turning homes into blazing infernos within moments. In 1984, more than 100 Americans died in kerosene heater fires, with flare-up being the leading known cause. And all further work to reduce the flammability of upholstered furniture also is being stopped in its tracks. Nearly 15,000 times a year, a glowing, forgotten cigarette ignites a piece of upholstered furniture, killing some 860 Americans. No longer will we work with industry to develop new materials and techniques to stop this carnage. Instead, we are now beating a hasty retreat from our statutory mandate to combat fire hazards.

UNFINISHED BUSINESS

This budget also fails to approve numerous other key projects aimed at protecting consumers. Specifically --

* In 1984, there were about 50,000 medically attended injuries from riding mowers. We've successfully completed the first phase of an analysis of the risks and examined the massive costs from these injuries. In FY'87, we planned to test how the mowers become unstable during use and play a lead role in designing out any unreasonable risks. But we won't under this budget proposal, because the $300,000 needed for these tests has been yanked.

* Thousands of consumers have registered complaints about several household products, especially paneling and particleboard, that emit formaldehyde fumes. Consumers report nausea, headaches and vomiting as common symptoms. The Department of Housing and Urban Development (HUD) has responded to such complaints by restricting the amount of formaldehyde emissions from pressed wood products in mobile homes. This year, we are assessing the problem in conventional homes, and are prepared to make suggest acceptable emission levels. But in FY'87, we will turn our back on this work. And so much past effort will be wasted, while the danger persists.

* In 1984 (the last year for which data are available), some 85,000 medically attended injuries were associated with chain saw hazard patterns unrelated to the kickback risks we've already addressed. Between 1978 and 1982, nearly 30% of chain saw-related deaths reported to the CPSC and 75% of the injuries were associated with these non-kickback incidents. Twice, in FY'85 and '86, we've reneged on our commitment to work with industry to reduce this toll, in each case because we had to divert already scant resources to the expanding ATV effort. In this FY'87 budget before you, we've devoted only 27 staff months and no contract dollars to this task. That's not enough even to begin to address this most serious risk. It's hardly a good faith pledge by us to an industry that has urged us to help them to correct this hazard.

* Recent advances in electronics permit us to design sensors directly into products to guard against many hazards. Such sensors could afford fail-safe protection against shock and electrical fires. CPSC is ideally suited to evaluate ongoing efforts by the home-building community to redesign household electrical systems for maximum energy efficiency, convenience and safety. Unless we are involved in the "Smart House" undertaking, there may be no strong advocate for safety concerns when the inevitable compromises are struck. The very few staff months grudgingly allocated for this purpose do not begin to ensure needed agency input into this promising preventive effort.

CHANGE COMMISSION STRUCTURE

I would be remiss if I did not suggest an area where changes can be made without impairing the agency's effectiveness. But this can only be done by Congress, not us, because it requires amendments to our statute. Specifically, CPSC no longer needs to be administered by five Commissioners. Originally, given our procedures, our budget and the number of employees to be supervised, five Commissioners were deemed advisable. But as the number of key personnel continues to shrink along with the agency's overall budget, it becomes harder to justify the need for five Commissioners, each advised by two Special Assistants and assisted by secretarial/clerical staff. The direct costs are significant. There are also sizeable indirect costs resulting from the multiple often-inconsistent demands on staff by each of five Commissioners.

Therefore, I would strongly recommend that consideration be given by this Appropriations panel to urging that our authorization panels and each house of Congress amend the Consumer Product Safety Act to reduce the number of Commissioners by two, or even possibly re-establishing the agency to be headed by a single administrator. Obviously, the advantages of retaining a Commission structure -- its independence, the diversity of ideas, the continuity of regulatory approaches over time -- are not insignificant. But either alternative could result in substantial economies without further impinging upon our mission. And the savings from implementing this change could be used to restore some of the valuable programs we've been forced to abandon.

CONCLUSION

The truth is that the CPSC's FY'87 budget "request" was jerry-rigged to fit into a wholly arbitrary budget mark set by an Office of Management and Budget which seemingly doesn't care about the safety mandate of this agency. That mark will not permit the Commission to do its job as required by law.

Congress created the CPSC to stay on top of industry trends, spot needless risks before many -- or any -- consumers are hurt. We're ordered to perform the underlying research and investigative work this task requires. Excessive cost-cutting where health and safety are at stake is not only perilous to the well-being of this Nation, but exceedingly short-sighted. It should be all too clear that it's a whole lot cheaper for our society to prevent tragedies in the first place than to pay dearly for them as the body count inevitably rises.

The critical hazard projects I have attempted to describe weren't fabricated by idle minds looking for ways to insidiously add to the federal deficit. Each represents a carefully considered response to a pressing public health and safety concern. The fact that we won't, under this budget, be able to adequately address even one of these risks is a cause for agonizing. Simply stated, known risks to the American public are not being addressed. This budget proposal constitutes a ringing indictment of the severe, unabated budget slashing over the last few years that has imperiled our ability to protect against death and grievous injury from unreasonably dangerous consumer products. And predictably, the ultimate victim is the American public.

Sincerely,

Stuart M. Statler
Commissioner

cc:

Congressman Bill Green
Ranking Minority Member

ADDITIONAL VIEWS ON BUDGET

Mr. **Statler**. The thrust of that letter is that I disagree fundamentally with some of the certain decisions and certain priorities this Administration is setting, particularly in the area of this Commission for which I have some responsibility because of the oath of office that I took.

I feel obliged to say I don't think a budget of $33 million and 527 FTEs begins to permit us to undertake and address the mandate which the Congress has given us. I say that especially in light of the fact that that budget would mean that we would be down some 55 percent in constant dollars when compared with this Agency's first full year's budget back in 1974. This is a greater percentage reduction than that borne by any other Federal health and safety agency.

In the United States Government or consumer protection agencies, that is unprecedented. The idea that we can cover anywhere near the 15,000 products that are within our jurisdiction with this budget, when we know there are hazards out there, known risks that we are not addressing right now, and emerging hazards that continue to crop up among them such as an escalation in the number of injuries and deaths—mostly to kids—from all-terrain vehicles that we are just barely touching—I in good conscience can't subscribe to the amounts that are in this budget for the reasons that are set forth in that letter.

Mr. **Sabo**. Thank you.

Mr. **Scanlon**. Mr. Sabo, I support the $33 million request. I would like to reiterate one point that Ms. Dawson made.

I think it is imperative that the cigarette safety effort, which will be in its third year in fiscal year 1987, not cease because of lack of funding. The CPSC has carried the ball on this and had expended almost $2 million, or will have by the end of fiscal year 1986.

We would hope that the Appropriations Committee might ask HHS and/or FEMA to assist in funding the remaining $605,000 which will be necessary for us to finish up this very worthwhile research project that hopefully will benefit the consumer.

Third, I disagree with the proposal to move out of downtown Washington to Bethesda, primarily because the Bethesda location is very difficult to get to. It think it is important that we be near the media, near the Congress, most importantly near the people whom we affect, those persons who attend our weekly Commission sessions.

I think that we should be in a central downtown location. Thank you.

BUDGET HEARING ATTENDANCE

Mr. **Sabo**. Thank you. Before we start questions, I might indicate the Committee each year requests that all the Commissioners be here. Each year apparently we have someone who is tardy or absent. Let me emphasize that next year again we would request that all the Commissioners be here for the hearings and the record indicate the Commissioners who are here this year and who is absent.

[The information follows:]

COMMISSIONER'S ATTENDANCE

Commissioners Present: Acting Chairman Carol G. Dawson, Terrence M. Scanlon, Stuart M. Statler, and Saundra Brown Armstrong.

Commissioners Absent: Anne Graham.

BUDGET REQUEST

Mr. **Sabo**. Each year the CPSC's budget gets whittled away a little more. Over the years this Committee has tried to add funds for critical areas, but the war of attrition goes on. Is it still worth it? Can CPSC do a credible job with only 540 people and $33 million?

Ms. **Dawson**. Yes, Mr. Chairman. I believe it can. This Commission has looked very carefully at all of its projects and has determined which, given the severity of the hazards that exit for consumers, are those where we can best put our funds and our staff resources. I think it is still very much worth it.

Mr. **Sabo**. Last year CPSC testified that the 1986 request of $33.7 million, 568 FTE, was a minimum required to maintain operations. What has changed that? The request this year is for both less money and fewer number of employees.

Ms. **Dawson**. Obviously this Agency, just like every other Federal agency, has to do its part to try to reduce the Federal deficit. We take our responsibilities very seriously in that regard.

Also, we can continue to look at ways of streamlining and ways of cutting down overhead and administrative costs. I believe that we have done that. We are continuing to look at ways that we can operate more efficiently to do the job more effectively with less money and less resources.

Mr. **Statler**. Mr. Chairman, on that point, you know when we as a Commission—four Commissioners at the time back last summer and fall—set what our 1987 budget request was going to be, we all recognized and I believe that of every Commissioner you heard said we felt this was the minimum request. That figure at that time that we agreed upon was $35.6 million, the absolute minimum request.

We labored over that for weeks at a time. Then OMB comes up with a figure of $33 million. It is kind of like the song "whatever Lola wants, Lola gets." Whatever OMB wants, OMB gets. The Commissioners decided, consistent with the law, that when OMB asks for a budget of $33 million, we have to submit a budget for $33 million. So we did.

But I don't think we are fooling anyone and we are not fooling this Committee by saying that this figure represents an adequate amount to do the job you are asking us to do—it does not—not when the very minimum that some of the Commissioners thought necessary was $35.6 million. My own view, as expressed to you last year, and I will reiterate it this year, is precisely that of Congressman Waxman's. Chairman Waxman of our Oversight Committee was far more on target when he talked about a figure of $60 million or $65 million. I recognize that it is unrealistic in these times to be asking for an almost 100 percent increase, but that is really more on the order of what this function needs to be performed correctly.

At some point, absent adequate funding, this country is going to be experiencing some kind of tragedy, we are now going through this catharsis with the *Challenger* space shuttle tragedy, trying to learn why it happened. Sometime soon, we are going to experience some tragedy in the product safety field and everybody is going to question how it could happen when there is a CPSC to watch over industry. We have been fortunate that it didn't happen to us last year and it didn't happen this year, but it will.

Perhaps if the number of deaths from ATVs continues to escalate, if the number of injuries continues, Members of Congress and the public will start saying why didn't CPSC act sooner. The simple answer is with this kind of budgetary cutting back, "whittling back," in your terms, we just can't do it.

CHANGE AGENCY STATUS

Mr. **SABO**. When shall we just call it quits and make CPSC a bureau within the FDA or Commerce or some other appropriate agency?

Ms. **DAWSON**. For the foreseeable future, I think we can continue with this Agency as a collegial body. We just heard a good example of the diversity of views you have represented here. I would like to respond to Commissioner Statler's comments about our vote on the 1987 budget, our initial vote, by saying that I recall that I voted against the figure of $35.6 million because I felt it was too high.

We have cut our budget but we have done it by reducing items which are not going to materially affect our ability to do our job. I believe that the public will still have product safety covered.

Ms. **ARMSTRONG**. I would also like to supplement both Commissioner Statler and the Acting Chairman's response, as well, particularly in view of the question that you just asked in terms of whether we should incorporate the agency into an existing department. That raises two issues, one of independence of the agency and one of the collegial structure versus perhaps a single administrator.

Some of the comments that Commissioner Statler made were well taken, but we have to realistically assess our capabilities. We cannot be everything, as the Chairman said, to everyone. We are not a panacea, and we cannot do everything.

With unlimited resources, we would not be able to do everything. Also, theoretically with unlimited resources, there may be hazards that come up over which we have very little control that may impact on the safety area.

I think it is a hallmark of our times at this point that all Federal agencies are being asked to continue effectively rendering service with fewer resources and CPSC is not unlike other agencies in that regard.

It is incumbent upon us to recognize that and to structure our approach so we can effectively leverage our resources in such a way that we maximize our effectiveness.

In terms of the independence of this agency, there are pros and cons on both sides. I think it is an appropriate time to re-evaluate the structure of the agency at this point. I am mindful of the fact that the House has put a provision in our reauthorization bill that

GAO look at this and examine the current leadership to determine whether or not the collegial structure is the most effective form of leadership, or whether some other form is more appropriate and whether it should be incorporated into another agency.

Obviously, the collegial structure and the independent agency highlight the importance of consumer product safety issues, in terms of making a statement of how important it is that the body, the policies that come out, and its decisions are independent. The independence also shelters the agency, to a certain extent, from changes in Administrations and Congress, both interventionist and non-interventionist philosophies, thereby assuring some degree of consistency in providing product safety.

There are advantages and disadvantages to the collegial structure versus a single administrator. I won't go into all of them, but I think some of them are very obvious in terms of the magnitude of some of the decisions that we make; and the kind of constituents, people, that are affected by the decisions that we reach, at least one could argue, require a diversified approach, more than one person's perspective, background, philosophical bent.

The decisions that are reached are frequently more sound when you have the exchange of the collegial bodies. On the other hand, the single administrator is more expedient. So to sum it up, I think that it is appropriate to reevaluate the leadership, given the shrinking resources and given the kinds of activities the Commission historically engaged in that we are no longer at this point able to accommodate.

But I would hope that it would not be changed prematurely—before very close scrutiny and evaluation is made of some of the advantages and disadvantages. I think there are numerous advantages associated with the collegial structure and there are some advantages associated with a single administrator including the obvious, the cost.

There is more to it than just the cost that would impact on the very safety of the products that we are charged with responsibility of handling.

AGENCY EFFECTIVENESS

Mr. **Sabo**. Some critics of CPSC charge that the Agency has lost much of its effectiveness, and today CPSC is ignoring many more problems and lacks the will to regulate industry, even if the situation requires it. How do you respond to those charges?

Ms. **Dawson**. If I understand the question correctly, the critics are charging that we are not willing to regulate industry. If you look back at the 1981 amendments to our Act, which require us now to defer to voluntary efforts by industry when we find that a voluntary standard will provide an adequate level of safety, we have done that.

The absence of mandatory rule-making does not indicate that the agency is not being effective. In fact, quite the opposite is true.

We have increased our ability to work cooperatively with many manufacturers and to provide safer products without the expense and time-consuming effort of going through mandatory rule-making procedures.

Mr. **Statler**. Mr. Chairman, I am sure I am in the minority here, but I think there is a great deal to be said about that criticism. Having been a Commissioner with the longest tenure—into my seventh year now—I am alarmed, frustrated and astonished that the thrust of the mandate that we the Commissioners are sworn to uphold, is not being satisfactorily carried out because of an apparent reluctance to use the authority we have to do what needs to be done.

There are so many issues sitting before the Commission right now that either don't get resolved or get resolved in a way that is just a kind of nod to industry—telling them that if they will just come up with a standard, any standard, that is all that is necessary, and then we will pretty much forget the problem.

Sometimes we don't even monitor. It is a very different Commission than the Commission I served on when I first came. It is troublesome that these issues continue to persist, that the public expects a degree of protection that they are not getting, and that we are no longer the watchdog that they once had and had every entitlement to expect.

Instead, in some respects, as Chairman Waxman indicated in a major speech last night, we are counterproductive. He cited the case of recliner chairs where a staff member writing an economic cost-benefit analysis actually may be encouraging the industry not to take corrective action that the industry otherwise was prepared to undertake because of a "mindless effort" that he termed "stupid"—a characterization that I would have to agree with him on.

It is as if cost-benefit analysis is being used as almost a justification now for not taking action. If this is the best that can come out of the Commission, all I can say is not all of the Commissioners are responsible for it. Indeed, this whole thrust for cost-benefit analysis, particularly where it isn't even warranted—I don't know where it is coming from, but it is a dangerous precedent.

As Congressman Waxman indicated, cost-benefit analysis is an art, not a science. It is meant to be a tool to help, not a determinative mechanism, but it is being used at this point as a means for telling industry not to do things that their good sense, their good judgment and their concern for reputation and product liability would otherwise cause them to do if there was no Consumer Product Safety Commission.

MANDATORY REGULATIONS

Mr. **Sabo**. When is the last time CPSC issued a major mandatory regulation?

Ms. **Dawson**. We currently have an advance notice of proposed rule-making on all-terrain vehicles.

Mr. **Sabo**. When was the last one?

Mr. **Scanlon**. 1982, prior to the ATV.

Could I make one comment?

Mr. **Sabo**. Let me say, I think that voluntary standards are preferable to regulations. The question really is if your Commission has the credibility to negotiate in good faith. Are they convinced that you have the muscle and the willingness to move into mandatory regulation?

Ms. **Dawson**. So long as we still have the authority to issue mandatory regulations, I think they are well aware of it.

Mr. **Sabo**. A mandatory regulation has not been issued for four years.

Mr. **Statler**. The authority is not enough, Congressman Sabo. It has got be the backbone, the willingness to step in there and regulate when the industry basically sneers in your face and says we are not going to do anything. That backbone is not there.

Mr. **Scanlon**. We are doing that. I think what is important when we are talking about enforcing the actions is to look at the actions. The highest penalty ever levied by the CPSC was last year, $800,000 for failure to report an alleged gas valve defect. The number of Section 15 reports coming in from both retailers and manufacturers is high, much higher now than, say, a year ago.

Mr. **Sabo**. How about compared to five years ago?

Mr. **Scanlon**. I think the compliance figures are good and I think that is significant because we are emphasizing voluntary standards. We now have people working on some 50 different voluntary standards but we are also doing enforcement.

Ms. **Armstrong**. I think it is important to keep in mind that all remedial action of the Commission, whether it is voluntary or mandatory, is tailored to the least intrusive action that will adequately protect the public. We, as in the past, first try to seek the cooperation of the industry in an attempt to eliminate whatever the problems are. Then we move to the more intrusive mechanism. If it becomes apparent that there is a voluntary standard in existence that adequately minimizes the risk that we are concerned about and with which there is substantial compliance then, of course, the act requires that we defer to that voluntary standard. It makes no sense for the Commission to continue with developing a mandatory rule when there is a voluntary standard which is being substantially complied with, and which addresses the risk with which we are concerned. I personally do not believe that there is any preconceived notion with respect to one tool versus another.

As a Commissioner, we look at each particular case on its merits and determine what is necessary. I think, at least as one Commissioner, that it is very clear that to the extent mandatory action is warranted, I feel no hesitation whatsoever in utilizing that tool; I do think that, as in the past, we are doing the same thing that has always been done, trying to explore the least intrusive way of eliminating the problem before proceeding to the next step.

ALL TERRAIN VEHICLES

Mr. **Sabo**. When money is as tight as it is at CPSC, it is all the more important the Agency be working on the most serious problems. The all-terrain vehicle problem would seem to capture the limelight lately.

This Subcommittee did approve reprogrammings both in 1985 and 1986 for this purpose, but not without some reservations. The ATV problem is easy to grasp. Public hearings get big headlines and ATVs are sort of a sexy issue, but is there a chance CPSC is going overboard here?

Ms. **Dawson**. We have looked at this issue very closely because it was one that our staff spotted after seeing a great many serious injuries and deaths. We felt an obligation under our statutes to take action. Just to give you an idea of what we have been doing, we have established a task force within the Agency to handle this problem, raising it above the level of other product hazards we are working on.

The task force has completed a preliminary report on the survey of ATV-related injuries. The results tend to confirm the need for our involvement in this issue.

We have also, as you mentioned, had five public hearings throughout the United States. We have heard the views of State and local officials; users; manufacturers; dealers; and doctors who treat the injuries.

This information, plus the 3,003 comments we received on the ANPR, will be considered by the Commission after the task force prepares a regulatory options package in late September of this year. That package will include an analysis of the provisions of the industry voluntary standard, the completion of technical work including a hazard analysis and an exposure survey, plus engineering factors and a medical analysis.

I think in fiscal year 1987 our intent is to implement whatever Commission decision is reached on those regulatory options. We want to evaluate the effectiveness of the voluntary standard with respect to medical, engineering and epidemiological considerations.

In 1987, we have planned $864,000 and 10.8 FTEs for the project.

RESOURCES UTILIZED BY ATV PROBLEM

Mr. **Sabo**. For the record, we would like total resources devoted to ATVs in 1986 and proposed for 1987.

Ms. **Dawson**. We will provide that.

[The information follows:]

ALL TERRAIN VEHICLES

[Dollar amounts in thousands]

	1985		1986		1987	
	FTEs	Amount	FTEs	Amount	FTEs	Amount
Power equipment	17.7	$994	12.5	$923	9.3	$762
Information and education portion			2.2	176	1.5	103
Total	17.7	$994	14.7	$1,099	10.8	$865

METHYLENE CHLORIDE

Mr. **Sabo**. Doesn't all this money and attention to ATVs divert resources from other problems that might be subtle, but equally serious? As an example, what about the problem of methylene chloride; other Federal agencies are very concerned over its health risks. It is found mostly in consumer products like paint strippers and spray paint. Why hasn't the Commission taken any action in this area?

Ms. **Dawson**. We have done quite a bit in that area, Mr. Chairman. In 1986, $141,000 and two-and-a-half FTEs are being used to review the data on exposure to methylene chloride in paint strippers, aerosol spray paint and other products.

A Commission effort to develop consumer information about these products is ongoing in cooperation with the paint industry. The same effort is being made on voluntary labeling. The Commission stands ready to pursue mandatory action if needed, however.

We are scheduled very soon to address this issue in a meeting in which we will consider the options before us. In fiscal year 1987, we are planning to devote $147,000 and 2.7 FTEs to continue to evaluate the consumer exposure to paint products, to coordinate voluntary labeling with industry, and to conduct a risk assessment on household products containing methylene chloride.

Much of this is being done cooperatively with other agencies.

PROPOSED METHYLENE CHLORIDE REGULATIONS

Mr. **Sabo**. I understand both EPA and FDA are proposing regulations for methylene chloride. As you indicate, you have been studying them. What is your planned schedule for future CPSC action on methylene chloride?

Ms. **Dawson**. As I just mentioned, we currently have that issue before us.

Mr. **Sabo**. Let me ask another question. Is that of less importance to the consumer than the ATV problem, or greater?

Ms. **Dawson**. Obviously, it is an area which we are taking quite seriously. It depends, of course, on the nature of the hazard, and the amount of resources that are required to address it.

The ATV project has required a considerable amount of engineering analysis, whereas with methylene chloride a lot of independent study has been done supplementing our own studies. Different types of resources are required for an issue such as methylene chloride as compared to ATVs.

Mr. **Statler**. Mr. Chairman, it is always hard to try and rate one hazard versus another, particularly when one is evidenced by actual deaths and injuries as in the case of ATVs, and the other is in terms of projected deaths and injuries. In the latter case, you never know until the future whether your analyses are correct, and it is often hard to trace whether a particular death from cancer was related to chloride, nitromethanes or to some other chemical—asbestos, what have you.

But as we try and compare death figures, projected and real, I would have to say as one Commissioner, as important as I think the methylene chloride issue is and appropriate to be raised in this context, ATVs are a bigger issue. We know of 125 actual deaths from January to September of 1985 from ATVs, half of those kids under 16 and a quarter are kids under 12.

In the case of methylene chloride, the estimated risk is so significantly less, that although it still represents a considerable hazard, I think it is appropriate that we have targeted more resources to the ATVs than to methylene chloride.

We also have a case where with ATVs you have an industry that, so far as I am concerned, is not doing very much. By their own testimony, they have done zero so far to improve the dynamic handling and stability of those vehicles.

That is what they testified to. In the case of the methylene chloride, you do have action on the part of the makers of paint sprays, the aerosols; they are cutting down the amount and concentration of methylene chloride in aerosols quite significantly. Indeed, it may even disappear altogether from aerosols.

In the case of paint strippers, the industry believes that methylene chloride is an essential ingredient. Indeed, methylene chloride even serves a safety purpose because it is a flame retardant. One manufacturer, Dow Chemical, is exploring a process by which the vaporization rate at which methylene chloride is emitted from paintstrippers could be reduced. If the process tests out, the vaporization rate or volatization rate will be significantly cut back by the introduction of a buffer. So a segment of the industry is doing something in response to the other part of your question. They are doing it; we are not.

We are due to decide this tomorrow. It is on our agenda. I don't know what the result is going to be, but I am not too sanguine. We are going to be strong enough to encourage still further and more expeditious action to get the industry moving even more quickly.

REGULATION OF ATVS

Mr. SABO. Is the Commission considering a mandatory regulation concerning ATVs?

Ms. DAWSON. That would be one of the options we would be presented with, yes. We do have an ANPR in existence right now, so rule-making is one option that would be open to us.

Mr. SABO. Mr. Green, do you have any questions?

NEISS

Mr. GREEN. Yes, a couple.

On this question of your jurisdiction versus other regulatory jurisdictions, I noticed in the Federal Register of January 21, 1986, a notice that CPSC is working on collecting data related to the causes of product related accidents in the emergency room. I would have thought that that area, medical devices, would be essentially a FDA area.

I am just curious as to what you see as your area versus that of other agencies.

Ms. DAWSON. I believe, Mr. Green, that refers to our National Electronic Injury Surveillance System, NEISS. The announcement that you are referring to concerns a causal relationship between products and injuries that are seen in emergency rooms.

Mr. GREEN. You don't think that is a situation that the Food and Drug Administration adequately covers?

Ms. DAWSON. No, that is definitely ours, because it is product-related.

Mr. GREEN. They do regulate medical devices.

Ms. DAWSON. That comes under FDA, that is true.

Mr. GREEN. These are not medical devices?

Ms. **Dawson**. This refers to the accident victim who comes into the emergency room with an injury associated with a consumer product.

Mr. **Green**. You are not talking about injury within the emergency room?

Ms. **Dawson**. No.

Ms. **Armstrong**. If I may expand on that a bit. One of the concerns the Commissioners have articulated since I have been on the Commission is concern about the validity of the projections that are based on raw data we receive through our NEISS system.

Industry as well as other groups have questioned the accuracy of our projections which we use to determine the appropriateness of regulations, or any other Commission activities. It was during the course of an evaluation of our NEISS system that we engaged in a discussion with our contractor, Centaur, of some ways in which we could add to, or modify, the existing NEISS system in order to more accurately reflect what is going on in the country. If we could in some way make our raw data more accurate, then, of course, extrapolations based on that raw data would be more accurate and would alleviate some of the concerns industry has articulated.

The particular suggestion you are referring to from the Federal Register came up in the context of that discussion. There was an initial pilot project, which was used in some of the hospital emergency rooms in which patients, prior to receiving medical treatment, are asked certain questions about their perceptions of how their accidents occurred and whether they perceive their accidents to have been caused by misusing a product, or if they felt they were using the product in the right way.

PILOT RESULTS

We were briefed on it at the end of the first pilot and there were those of us who felt, based on that briefing, that it was the kind of project that did not warrant additional Commission resources because the report demonstrated that the first pilot was an abysmal failure.

Notwithstanding that, a majority of the Commission decided to go ahead and invest resources on a second pilot. In the second pilot questions will be submitted to the hospitals, to be presented to emergency room patients prior to their treatment, concerning whether they were responsible for their injuries, whether products were responsible and the primary reason. I, as one Commissioner, took strenuous exception to the propriety of that, mainly because of the responses by some of the hospitals in the intitial pilot that they would not be willing to continue to cooperate in such a study. Also, when people submit to emergency rooms for treatment, their ability to appreciate certain things cannot be reliably anticipated.

People are not in a position to evaluate the kinds of rights that they are relinquishing by making statements in an emergency room environment that may inure to their detriment if they later choose to perhaps sue or seek redress for the injuries.

So there were a number of reasons that, at least as one Commissioner, I felt that it was inappropriate to invest any of our scant resources in connection with this effort. Also the staff told the

Commission repeatedly that this particular project will not address the concern that we have.

It will not, underscore, it will not put us in a position of being able to accurately make projections, It will have no bearing whatsoever on the existing NEISS system in terms of our being able to more accurately reflect what is going on out there.

Since it did not, and the staff has indicated to us it did not, accomplish the objective that we were seeking, then there were those of us who felt that it was a terrible waste of our scant resources.

Mr. **Statler**. Congressman Green, I would subscribe to everything that Commissioner Armstrong said. You put your finger on a very volatile issue, because here——

ALTERNATE VIEW

Mr. **Green**. Inadvertently, I can assure you.

Mr. **Statler**. Congressman Sabo appropriately, in his questions, questioned whether we have the commitment and the backbone with respect to industry, and as you hear from my response, there is kind of the sense in the Commission that we shouldn't intrude on industry.

Well, that is fine if industry is doing what they should, but by virtue of the three to two decision on this issue, the Commission indicated a willingness to go ahead and intrude on the American public; that is, people who report to hospital emergency rooms are now going to be questioned in a potentially incriminatory way that can be used against them later on in civil suits that they may bring, or may be brought against them.

You basically have Big Brother entering into that hospital emergency room when somebody comes seeking medical attention. You have got these questions being put to him or her that are going to possibly delay treatment, delay medical care and be an intrusion on the privacy of those individuals.

I think that is a very regrettable result.

Ms. **Dawson**. Thank you, Mr. Green.

I am not going to get into the merits of this discussion except to say a majority did decide to conduct this very brief pilot project. It is only a two-week project. It is an effort to refine the data collection of the NEISS system.

The NEISS system is constantly undergoing review. This is an attempt to improve it. If the results of the project show that it is not a feasible way to collect data, of course we will review it in that spirit.

It was a decision that the collegial body made. Obviously, there was disagreement, but it was an attempt to improve our statistics, our data collection.

DEHP

Mr. **Green**. On another subject, the Federal Register of July 9, 1985, there is a notice of a draft report by the Commission concerning potential hazards presented by DEHP (Di(2-ethylhexyl)phthalate) in consumer products.

As I understand it, the report addressed the potential chronic hazard of cancer associated with consumer products containing DEHP.

I have two questions. What progress has been made since July; and second, what standards are used in this study for the measure of carcinogen risks?

Ms. **Dawson**. In the DEHP, specifically?

Mr. **Green**. Yes.

Ms. **Dawson**. Well, of course, we have had a published report on that issue. It is my understanding that the industry was involved.

This chemical was primarily used in certain children's products. It is a plasticiser. The industry pretty much has eliminated the use of that chemical or reduced it to such low levels that it is no longer of great concern.

Mr. **Green**. Thank you, Mr. Chairman.

Mr. **Sabo**. Mr. Stokes.

LOWER PRIORITY PROJECTS

Mr. **Stokes**. Thank you, Mr. Chairman.

Ms. Dawson, you state in your budget submission that one way you are responding to reductions in funding is to streamline your responsibilities by cutting out lower priority projects.

Could you give us some idea of what examples you are talking about by lower priority projects?

Ms. **Dawson**. In terms of the things that we have eliminated for the fiscal year 1987 budget?

Mr. **Stokes**. Your fiscal year 1987 budget.

Ms. **Dawson**. We have looked again at some of those projects. We decided we could eliminate some of the ones that we had already done quite a bit of work on without harming the public safety.

Kerosene heaters was one such issue; another was upholstered furniture. Others were feedback electrical systems (the Smart House project), heat tapes, microcircuitry, and strong sensitizers. They were the projects that were eliminated.

Mr. **Stokes**. Are they the ones that you would say constitute a lower priority project?

Ms. **Dawson**. Four of the items were things on which we had already expended considerable time and resources.

We felt we had to make some hard choices and these were projects that had already had a significant amount of work.

The others were projects that might have problems, but we could come back and take a look at those at some later point.

Ms. **Armstrong**. I would like to add to that, if I may.

Mr. **Stokes**. Certainly.

Ms. **Armstrong**. The cuts that the acting chairman has delineated represent the view of the majority. Obviously, some of us differ in terms of whether they are lower priority relative to some of the ones that we left in the budget.

There are projects in the list read by the Chairman, that, for example, I did not vote to have eliminated, because according to my personal evaluation, some of them would have been higher priority.

But these decisions are a result of the collegial decision-making process and ones that the majority of the commission agreed would have to give away to some of the ones that are currently found in the budget.

PERSONNEL REDUCTIONS

Mr. **Stokes**. I see. I notice your 1987 budget calls for 527 full time employees, a figure which reflects a continuing pattern of personnel reductions which have characterized the CPSC since 1982.

Can you tell me how these personnel reductions have impacted upon minorities and women at the Commission?

Ms. **Dawson**. The current figures for the first quarter of 1986 show that women represented 41.6 percent of our work force and minorities 24.5 percent.

Those figures are consistent with the history of the Commission in employment of those two groups.

Since 1974, employment at the Commission has ranged from between 41 to 45 percent women and from 19 to 24 percent minorities.

Mr. **Stokes**. So, you are saying, in effect, there has been relatively little impact in terms of the ratio of both women and minorities in your total overall staff, right?

Ms. **Dawson**. Yes.

TRAINING PROGRAMS

Mr. **Stokes**. How about training programs? Has it affected any training programs?

Ms. **Dawson**. Mr. Murr may be able to respond to that.

Mr. **Murr**. Our training funds, of course, have been reduced substantially over the years. However, we have still undertaken efforts each year to maintain a training program that tries to meet the needs of employees as best we can.

We include in that training that which is needed to improve performance and training for investigators in the field. But in addition to that we have tried to provide the type of training that simply improves employee's overall job skills such as writing courses and courses in dealing with the public. And in doing that we have tried to find more creative ways of financing it. Rather than sending individuals off to courses, for example, we have found that in some cases it is more cost-effective to hire someone to come to our worksite and train large numbers at one time. So, in sum, we have attempted, even with reduced amounts, to maintain a balanced training program.

I think we have done that as well as we can within our fiscal constraints.

VOLUNTARY HAZARD REDUCTION

Mr. **Stokes**. I notice that in your budget request you state that you have placed increased emphasis on voluntary hazard reduction activities by individual companies and entire industries as another option for responding to budget reductions.

However, it is difficult to believe that businesses will simply embrace the costly task of monitoring their own activities.

I am wondering what incentives, if any, do you propose to insure these private sector participants do, in fact, respond adequately to your request?

Ms. **Dawson**. In response to that, Congressman Stokes, I would like to point out that we do have the tool of Section 15 in our Act, and we are certainly willing to use that tool when an individual manufacturer or an industry is not responsive to our voluntary suggestion.

Again, if you are asking about specifically monitoring voluntary standards, we have recently deferred to a voluntary standard in the area of chain saws, and our compliance staff will be monitoring that standard.

We also have a voluntary standard in unvented gas space heaters that we will be monitoring in the coming year. Upholstered furniture is another area where we have worked closely with industry to develop standards. We intend to oversee compliance with the voluntary standard.

UPHOLSTERED FURNITURE

Mr. **Stokes**. That is one of the areas you place on low priority, wasn't it?

Ms. **Dawson**. Upholstered furniture has been an area in which we have worked for quite some time. It has gotten to the point where, based upon the perspective of all the other serious hazards that we are looking at, we can feel fairly comfortable that the industry is going to continue to work for safer products.

In fact, they have pledged to us that they will continue to work very hard to maintain consumer safety standards in their industry.

Mr. **Statler**. The problem is not industry compliance. We know that some 90 percent or more will be complying. We have a good record of compliance.

The real issue there is whether the standard is sufficiently strong, because notwithstanding the standards, we still know that there were some 800 to 900 deaths over the last year from smoldering cigarettes on upholstered furniture. That is higher than just about any other product that we deal with.

So, the question has to be raised, when we monitor industry's enforcement of its own standard, whether the standard itself is too weak. If it is, it doesn't really deal with the thrust of the problem, and we have failed in the first instance to avert those serious injuries and deaths.

INDUSTRY IMPROVEMENT

Ms. **Dawson**. In that particular hazard area, upholstered furniture, we recently discussed this on the Commission level. There are some technical innovations that are being developed that may bring about an improved standard.

At this point, our staff will still be working with industry or attending those technical meetings to provide whatever support we can.

Ms. **Armstrong**. To respond also further to your question, Congressman Stokes, I think it goes back to the question that Congressman Sabo asked earlier, when you asked what incentives are we providing to industry to assure that they will voluntarily correct some of these problems.

I think it is incumbent upon this Commission, first of all, to identify the hazard and determine what the response is that would be appropriate in terms of our agency, what our responsibility is to the public.

Once we have determined what is appropriate, then, working with industry and providing whatever assistance we can within our resource limitations in giving them guidance in terms of what we would like to see in a voluntary standard, and providing as much assistance as we can to facilitate that process. But, in the final analysis, to the extent that industry is unwilling to do that, then we have to make it very clear to them that we have other tools. We are not hesitant to use any of those tools, including Section 15, including rulemaking, that are available to us. In doing so, we are accommodating our charge in protecting the American consumer.

To the extent that industry does comply and to the extent they demonstrate they are willing, we provide them with whatever assistance and guidance we can; and to the extent they don't, then we rely on what you have given us in terms of our ability to accommodate the hazards ourselves.

FIRE AND THERMAL BURN HAZARDS

Mr. **Stokes**. Mr. Chairman, I have just one last question.

That is in the area of fire and thermal burns hazards program which represents a vital area of concern for consumer safety.

This program seeks to reduce the excessive number of deaths from fires involving consumer products, which is particularly important for the United States, where fire is the fourth leading cause of accidental death overall, and the second leading cause of accidental death in the home.

Yet, in your fiscal year 1987 request, you propose a cut in the program's funding by more than half of what it had enjoyed in the previous fiscal year, from approximately $2.9 million in fiscal year 1986 to $1.2 million in fiscal year 1987.

I guess my question is, did the program represent a lower priority for you, or is there some other justification for such a visable reduction in the fund?

Ms. **Dawson**. Certainly not a lower priority, no. I think the cutback that you are observing there is primarily due to the fact that in 1986 we had cigarette safety funding of $1 million which will not be there in 1987.

That accounts for a great deal of the reduction in that area.

Mr. **Stokes**. I see.

Mr. **Statler**. Congressman Stokes?

STATE ACTION

Mr. **Stokes**. Yes, sir. Commissioner?

Mr. **Statler**. Your question points out one of the problems of both inadequate funding and the Commission not doing what it otherwise should do, or, the way I would put it, abdicating some of its responsibility, because in that area of fire and thermal hazards, you have a situation where New York State is entering into a regulatory posture, and is now about to pass or is close to passing a fire toxicity standard that the industry is going to have to meet. Perhaps other states will then follow with different standards, because we are not doing it at the federal level.

In the case of kerosene heaters and other fire and thermal hazards, you have got some states and municipalities literally banning the kerosene heater altogether, the most Draconian measure. This is, at least in part, because we are no longer addressing the flare-up type problem, and improving the heater to an extent that those states and municipalities and counties would permit its use because it would be a much safer device.

Your State of Minnesota, Congressman Sabo, is one of the only ones that I know of that actually has promulgated a standard in another area where the CPSC has not acted firmly: the emissions of formaldehyde from pressed wood products.

Again, it is an area where, by virtue of our not taking action, a state has taken very definitive action. If a number of states were to begin to do that, it would be increasingly difficult for manufacturers to market their products.

It so happens that there is beginning to be a pattern of Federal abdication and states are taking action.

In New York, again, there is a bill now before the legislature that the Attorney General just introduced to provide for descriptive age labeling for toys.

Why? Because we are not into that area for all practical purposes. We are certainly not doing anything about it. I would say soon you are going to see manufacturers and distributors and retailers knocking on your door saying do something about this because we are going to have to market goods to 50 different jurisdictions and 50 different standards, because the Consumer Product Safety Commission didn't do what it should be doing.

Your example of the fire and thermal hazard area, the kerosene heaters, the fire toxicity work, the work that we are not doing on heat tapes, the work we are not doing on circuit breakers, on the flare-up problem associated with gas barbecue grilles—all this is going to come back to haunt us, you and the American public.

Ms. **Armstrong**. I think that is a little unfair. I would like to expound on that a bit, because the assumption is that the Commission is abdicating its responsibility by not promulgating mandatory regulations in all those areas. Clearly, the only way the states and localities would be prevented from promulgating regulations is if the Commission has a mandatory standard in place.

The commission has a very specific charge that you have given us, and that is to protect the American consumer against unreasonable risks of injuries associated with consumer products.

That means, to the extent that we identify a particular hazard, we have jurisidiction over the amelioration of that particular risk.

You have also told us that to the extent there is a voluntary standard that is being substantially complied with, we must defer to that.

Now, I would not consider that to be an abdication of my responsibility as a Commissioner, because you have put in our act a responsibility on the part of this Commission that if we are contemplating mandatory action and we become aware of a voluntary standard that adequately addesses the risk and is being sustantially complied with, we must defer to that.

That is consistent with our responsibility, not an abdication. Whenever there is a voluntary standard, there is always a risk associated with that, and that is that the states and localities may not agree and they may not go along with the voluntary standard. They may still promulgate their own regulations.

There is no preemption associated with voluntary standards. We are hearing that as a problem in connection with voluntary standards. Industry representatives who are willing to work very cooperatively with the Commission, and who are working on voluntary standards, are still faced with the possibility or proliferation legislation by the state and localities, because there is no preemption associated with voluntary standards.

I think we need to put that in the proper context, because there are situations where the Commission has assumed very diligently its resonsibility, but are still unable to provide the kind of consistency that is also one of our mandates under the act.

Mr. **Stokes**. I can only say you folks must have some very interesting meetings.

Thank you, Mr. Chairman.

GRAMM-RUDMAN REDUCTIONS

Mr. **Sabo**. Thank you, Mr. Stokes.

We have a few more questions. We have a host of others that we will submit for the record, and we will accept five different answers.

I am puzzled why the budget justifications make no mention of the Gramm-Rudman 4.3 percent reduction in 1986. I assume the Commission was aware of these reductions. How will these cuts be absorbed and will it result in any reprogramming request?

Mr. **Dawson**. The Commission has addressed the Gramm-Rudman reductions of 4.3 percent across the board which would eliminate $1.5 million in our 1986 budget.

As a collegial body, we agreed to reduce common costs by $180,000, operating costs by $270,000, and contracts by $725,000.

We are also planning to average our FTEs at 542 in order to save a salary figure of $372,000 for the total of $1.5 million. The Commission is preparing a reprogramming request now which will be submitted in the near future.

PERSONNEL

Mr. **Sabo**. How many people do you have currently employed?

Ms. **Dawson**. Approximately 553 FTEs.

Mr. **Sabo**. Will you have to RIF anyone to get to 540?

Ms. **Dawson**. We hope that a reduction could occur through attrition, in conjunction with a limited hiring policy currently in force in which we will fill only truly critical vacancies.

So, the answer is that we do not anticipate any RIFs at this time.

CONSOLIDATION

Mr. **Sabo**. Another perennial cost-cutting question is the consolidation of all Commission offices in Bethesda. We have heard a little bit about that already. The Grace Commission several years ago projected savings of $300,000 per year. That shift has finally been made in the 1987 budget, including bill language prohibiting renting office space in downtown buildings.

However, page 99 shows only minimal change in Commission costs from $2,197,000 to $2,164,000. Why aren't the savings from the proposed consolidation reflected on page 99?

Ms. **Dawson**. As I said in my opening statement, Mr. Sabo, we had somewhat of a diversity of opinion on the Commission about consolidation. However, in terms of the budget figures, perhaps Mr. Murr can respond to why you are seeing those figures in this particular request.

Mr. **Sabo**. How much of those are one-time costs that are reflected in those figures?

Mr. **Murr**. Well, the standard level user charge that you are referring to is a recurring figure for rent. The rent figures change from year to year. The reason you don't see a reduction of the magnitude the Grace Commission identified is that when we were directed by OMB to incorporate this language in our budget, we went with the assumption we had to be out by April 1st, so there is not a full year savings.

The full year rental for fiscal year 1987 for our space in the Logan Building is approximately $240,000. We have incorporated the savings for a partial year, and that, in turn, is partially offset by recent increases for our primary location in Bethesda.

So, that is why the full reduction isn't seen here.

COSTS ASSOCIATED WITH MOVE

Mr. **Sabo**. What is the one-time cost of making the move?

Mr. **Murr**. We estimate $60,000 at the most for renovation and the actual moving expenses.

Mr. **Sabo**. Is that budgeted?

Mr. **Murr**. Yes. We have covered an amount of that magnitude in our budget.

CIGARETTE SAFETY ACT

Mr. **Sabo**. Last year in providing $1 million for the cigarette safety study, this Committee put the Administration on notice that any additional funds needed to complete the study should come from the other participating agencies.

Have those funds been identified yet?

Ms. **Dawson**. Not to my knowledge.

Mr. **Sabo**. Why not?

Ms. **Dawson**. We have certainly made that request.

Mr. **Sabo**. Of whom?

Ms. **Dawson**. To OMB.

Mr. **Sabo**. Your Commission chairs the interagency committee. What steps have you taken to obtain these funds? Anything beyond requesting OMB, any lobbying of other agencies to request the funds or request reprogramming?

Ms. Dawson. As you may know, as the Acting Chairman of the Commission, I also become the Chairman of the interagency committee.

Originally, when the Cigarette Safety Act was passed, the interagency committee took the original estimate of $3.2 million and revised it downward to $2.4 million, so that panel has done some cost-cutting right from the start.

As I mentioned in my statement, the CPSC has already provided $1.65 million to this effort. The other agencies that are involved, specifically, the U.S. Fire Administration and HHS, have not participated fully in the funding.

So, yes, to answer your question, we have pointed out this problem to OMB. We have requested that it look into the matter and see where we can obtain those additional funds, the $605,000 required to complete the report that is due to Congress on this issue.

Mr. Sabo. Do you think the study is worthwhile?

Ms. Dawson. Well, I believe that if we can find an answer to the problem it will have been worthwhile.

Mr. Scanlon. If I could comment, this year, 1987, is very important, because it will be the final year, and all the research that has gone on the other two years would fall through the cracks if we didn't have that $605,000 to finish the study.

FUNDING OF CIGARETTE STUDY

Mr. Sabo. My understanding is the study has the support of the tobacco industry, and consumers are interested.

The Administration seems to have a lack of interest in it, though, as it relates to finding the funds from any other agency.

Ms. Dawson. The Chairman of this agency has requested or has actively supported trying to find the funds from the other agencies that are involved in the effort, to no avail, thus far.

Mr. Sabo. Have you lobbied them directly?

Ms. Dawson. Yes.

Mr. Sabo. Why was the due date for this study extended in the reauthorization bill? We thought it was on schedule.

Ms. Dawson. I think that had something to do with the funding difficulties we were experiencing.

Mr. Murr. I think as the project started up, it took a while to get the initial funding underway. There was a small amount that the Commission had internally allocated as directed by this Committee in the first year of $250,000, but until we received supplemental funding for $500,000 last year and then the $1 million in our 1986 appropriation, the lack of that funding slowed down initiation of the project.

Ms. Dawson. So, the technical study group is actually doing the work, and had made the comment that it could not complete its report unless they had an extention of six months.

INFORMATION AND EDUCATION CAMPAIGNS

Mr. Sabo. Last year you testified no information and education campaigns were planned in 1986. Is this still the case?

Ms. **Dawson**. No information and education campaigns?

Mr. **Sabo**. Right.

Ms. **Dawson**. You mean significant or major ones?

Mr. **Sabo**. Right.

Mr. **Murr**. Our fiscal year 1986 reprogramming request, which we sent to the Subcommittee, was a request to make all-terrain vehicles a priority project in 1986 and direct some funding toward it.

That included an information and education component. You have heard a lot about ATVs so far today, but an important element of our work on this project is informing the consumer of the problem with children of a young age riding it improperly, or not wearing protective equipment, etc.

It was felt by the Commission that an information and education component was necessary to complement the technical work on all-terrain vehicles.

Mr. **Sabo**. Are any I&E campaigns planned in 1987?

Mr. **Murr**. There are several I&E components of priority projects for that year. There is an ATV component in 1987. Part of our work on child drowning, since it not only involves some technical work on warning devices but involves behavioral problems, will include information and education, and so will our priority project on safety for older consumers.

CONSOLIDATION

Ms. **Armstrong**. Mr. Chairman, if I might, there is one area we kind of skipped over, and I would like to, if I might, provide a brief response concerning consolidation. That is one area that at least four Commissioners feel pretty strongly about.

Mr. **Sabo**. On which side?

Ms. **Armstrong**. Against consolidating to the Bethesda location. I think all of us would agree that it would be advisable if we can locate an accessible location where we could consolidate with the staff.

We are convinced the most cost-effective means of maximizing the Commission's impact, particularly in an era of rapidly shrinking resources, is to retain our accessibility.

One of the arguments that has been continually advanced in support of moving to Bethesda is the fact the management should be with the staff.

The reality is that the staff, on a day-to-day basis is managed by the Executive Director, the associate executive directors and the Deputy Executive Director. Further, the Chairman, according to the Consumer Product Safety Act, is the principal executive officer of the staff and has an office in Bethesda as well.

The Commissioners are not involved on a day-to-day basis in the management. When you think in terms of some of the responsibilities the Commission has and some of the groups that we impact, it is extremely important that our hearings and the Commissioners themselves be accessible to the consumer groups, trade groups, and industry representatives. Our hearings will have significant impact on their work.

The Bethesda location is less than ideal, because it is totally inaccessible by bus. It is two miles from the closest metro station.

The cab fare from the airport is astronomical. Particularly now, in a time when we don't have the resources that we once had, in order to maximize media coverage, the Commission needs an accessible location.

It is important that the public have access to our media office, office of congressional relations, and our reading room to obtain information about what we are doing on a day-to-day basis. The Commissioners should be in a location that is accessible to those individuals.

As we discussed briefly this morning, there is a provision in our reauthorization bill that provides for a GAO evaluation of the leadership of this Agency, and I would think that intrinsic to such an evaluation would be some consideration of the public relations, so to speak, responsibilities of the Commission in getting the word out about also working with consumer groups, trade groups, and industry and some evaluation of the proper location to maximize the effectiveness of getting that information out.

Last, but not least, I think that consolidation or any dislocation at this point would be an additional destablizing influence upon this Agency at this time.

I think it would be premature right now to make a decision that we should consolidate to Bethesda. We are exploring options, for example, in Virginia and other areas where the cost is less, where we could consolidate together, but which would be accessible.

The costs associated with consolidation in Bethesda would, I think, be borne by the industry and consumer groups, because they would be the ones that would lose immediately. I think the Commission in the long run would lose, because we would not be able to get the information to their constituents, because we just don't have the resources now.

We would urge you to delete the provision in the budget that prohibits the Commission from using money for office space in the Logan Building.

Again, we are not asking for an additional appropriation. We are only asking that we be allowed the discretion to use the money in a way that the Commission feels would most effectively enhance our ability to accommodate our charge.

So, we would urge you, the four of us—this is one area that we do have almost unanimity—to consider our request. We do feel there are other considerations to take into account besides the funding, and we believe that the most cost-effective location at this point would be for these offices to remain in Logan.

LOCATION OF CURRENT FACILITY

Mr. **Sabo**. Are you a private or public building downtown?

Ms. **Dawson**. It is a private building leased by GSA.

Mr. **Sabo**. So, the rents are determined by a private company, not GSA?

Ms. **Dawson**. GSA sets the charge to us, but it is considerably more expensive than the rent for our Bethesda office.

Mr. **Sabo**. How much are they increasing it?

Mr. **Murr**. In fiscal year 1987, it is approximately $240,000. It goes up about $40,000 for 1988.

Ms. **Dawson**. Two hundred eighty thousand dollars in fiscal year 1988.

Ms. **Armstrong**. One thing to keep in mind, GSA only requires 120 days notice. So, in the event it becomes apparent after the GAO study that the Commission's ideal location is in Virginia or some other location, we would be able to give adequate notice. The Bethesda location assessibility is severely restricted. It is an apartment-house, I believe.

Ms. **Dawson**. It is a private building leased by GSA. I would like to disagree with my colleague, Commissioner Armstrong.

To talk in terms of moving the whole Agency to another location is another matter. Costs involved in moving the whole staff, not just the Commissioners and their staffs, but moving the whole staff to a different location would be prohibitive.

Actually, I believe if we do not move before 1987, we will have to take funds from elsewhere perhaps from some of the hazard projects to cover the additional rent at Logan.

Mr. **Sabo**. When will the GAO study be done?

Ms. **Armstrong**. According to the reauthorization bill, it is due no later than January 1st.

Mr. **Sabo**. Of this past year?

Ms. **Armstrong**. 1987.

Mr. **Statler**. The Senate has to agree to that. It is strictly in the House bill.

[Questions and answers for the Record and justifications follow:]

PRIORITY PROJECTS

Question: Your statement mentions that six priority projects were originally planned under the October budget request of $35,647,000. The actual request is now only $33,000,000.

How can you still afford to fully fund all six priority projects?

Answer: The Commission continuously strives to identify hazards that present the most serious safety problems for consumers and deal with them in a timely manner. With reduced resources the Commission must direct its staff and dollars to the most hazardous product areas. While the six priority projects are still fully funded at the $33 million level, some small projects that are not as significant a safety hazard were reduced or eliminated in order for the Commission to address the more serious hazard areas.

OCTOBER - JANUARY REDUCTIONS

Question: What areas absorbed the reduction of $2,647,000?

Answer:

EXPLANATION OF CHANGES
October to January Budgets

Commission Policy Development Program (-$127,000)

One FTE in the Office of Congressional Relations and one in the Office of Equal Employment Opportunity and Minority Enterprise were eliminated. The dollar decrease is a result of the salary savings from these positions and an overall 10% administrative cost reduction.

Executive Direction Program (+$109,000)

The dollar increase is a result of the reallocation of funds to implement management review decisions. This increase is offset by the salary savings of 1 FTE reduction in the Office of Budget, Program Planning and Evaluation and a 10% administrative cost reduction.

Emerging Hazards Program (-$7,000)

There are no significant changes in this program.

Fire and Thermal Burn Program (-$396,000)

The decrease in resources is due to the elimination of the kerosene heaters project, upholstered furniture project, and reduced resources in the gas appliances project.

Electrical Hazards Program (-$209,000)

The reduction is a result of the elimination of the feedback electrical system, heat tape, and micro-circuitry projects.

Chemical Hazards Program (-$204,000)

The reduction in resources is due to a decrease in the glycol ethers project and elimination of the strong sensitizers project.

Children's and Recreational Products Program (+$12,000)

There are no significant changes in this program.

Power Equipment Program (-$357,000)

The decrease is largely due to contract funds for riding mowers being deferred to 1988. Staff determined that preliminary work would not be completed until the end of 1987, and therefore this contract could be deferred without hindering progress on the riding mower effort. Also, resources were reduced for the garage door openers projects.

Household Structural Products Program (-$92,000)

The reduction is a result of the elimination of a voluntary standard project on pressed wood and extension ladders.

Hazard Identification and Analysis Program (-$309,000)

The decrease is due to a reduction in resources for collecting non-NEISS data and an administrative cost reduction.

Engineering and Sciences Program (-$122,000)

The decrease is a result of the salary savings of 2 managerial positions in this program and an administrative cost reduction.

Information and Education Program (-$190,000)

The decrease is due to a reduction in resources for the hotline, distribution services for publications and a 10% administrative cost reduction.

Compliance and Enforcement Program (-$207,000)

The reduction is a result of reduced resources for Section 15 activities and an administrative cost reduction.

Field Activities Program (-$378,000)

The decrease is a result of recalculated salary cost due to the reduction of 5 regional office managerial positions and a 10% reduction in administrative/operating costs.

Administrative and General Support Program (-$170,000)

The decrease is due to salary savings of 3 FTEs, and a 10% administrative cost reduction.

FIELD STRUCTURE

Question: Before we get into the justification, I want to discuss some overall management issues. Last year this Committee put a hold on CPSC plans to shift resources from Washington to the field and to create 14 additional one-person "resident posts" in the field. We believed those issues needed close review in the course of the management study.

I see on page 6 of the justification that no changes are being proposed in 1987 in the headquarters/field balance. Have those plans been abandoned -- are you satisfied with the current mix?

Answer: The Commission is currently in the process of assessing a report prepared by the firm of Price Waterhouse which specifically addresses the field management structure. Its report, and recommendations made by a Task Force established for this purpose, have been formally presented to the Commission. The Commission anticipates making its decisions on the field over the next few months. The 1987 budget document displays no field management changes pending the Commission decisions, with the sole exception of eliminating the regional office deputy directors in the interest of management streamlining.

NUMBER OF FIELD OFFICES

Question: In fact, the management study recommended that the field structure be streamlined and that the number of offices be reduced (not increased). What about that?

Answer: The Commission met on February 19, 1986, to discuss this and related issues that were raised in the 1985 management review and in the subsequent recommendations of the Management Review Task Force. Field staff views have been obtained. In determining what the most effective structure of the field is in terms of the number of offices, the Commissioners must weigh such factors as overall resources, limited travel dollars, geographic coverage and management control. The Commission is taking steps to streamline the field through such means as eliminating unnecessary management layers.

Question: The management study reached some very basic and troubling conclusions about CPSC's field apparatus -- it seemed to question if CPSC even knew what the mission of the field is. What about that?

When will the overall field mission be clearly defined?

Answer: The overall mission of the field remains the same. It consists essentially of activities to support the Commission's statutory responsibilities in five functional areas -- investigations, inspections, corrective actions, information and education, and State and local programs. Essentially, the management study identified a need to resolve current questions as to the balance of resource use and the emphasis to be placed on particular kinds of field activity in a time of severe resource constraints. Decisions about these issues have implications for the number and location of field offices and the types of staff skills required. Factors to be taken into account include geographic coverage, travel limitations and management controls. The Commission has met to discuss the structure of the field and expects to reach conclusions about the appropriate resource mix for the future prior to completing the 1987 Operating Plan.

ONE-PERSON RESIDENT POSTS

Question: One specific study recommendation is that CPSC should have no one-person resident posts -- that every office have at least two people. Has the Commission acted on the recommendation to consolidate those one-person offices? (The report was completed last October.)

Answer: The Commission has not yet taken any action on that recommendation, although a number of meetings have been held to examine and discuss the issue. The recommendation is a significant one in that its implementation may mean establishing new offices, transferring staff among locations, and, potentially, reductions-in-force (RIFs). These have implications for permanent change of station costs, severance and lump sum leave payments, facility rental charges, salary costs, and other costs associated with adding and reducing offices. The Commission must carefully examine the cost of the recommendation, together with future program plans and the best methods for achieving program goals through field staff, before making such an important decision.

Submit for the record the number and location of one-person resident posts in 1984, 1985, 1986, and any planned in 1987.

The number and location of one-person resident posts is as follows:

1984 - 17 Resident Posts

- Buffalo, New York
- Bridgeport, Connecticut
- Milwaukee, Wisconsin
- New Orleans, Louisiana

- Charlotte, North Carolina
- Cincinnati, Ohio
- Denver, Colorado
- Honolulu, Hawaii
- Houston, Texas
- Indianapolis, Indiana
- Orlando, Florida
- Pittsburgh, Pennsylvania
- Pheonix, Arizona
- Portland, Oregon
- San Juan, Puerto Rico
- St. Louis, Missouri
- Tulsa, Oklahoma

1985 - 21 Resident Posts, including the following additional four:

- Albuquerque, New Mexico
- Baltimore, Maryland
- Little Rock, Arkansas
- Trenton, New Jersey

1986 - Current 21 Resident Posts in the same locations as 1984.

1986/1987 - The Commission is considering the number and location of future resident posts, as discussed above.

DEPUTY REGIONAL DIRECTORS

Question: What about the recommendation to abolish all Deputy Regional Director positions? (If no action is planned, why not?)

Answer: The Commission decided to abolish all the Deputy Regional Director positions as part of the 1987 plan to reduce FTE levels from 568 to 527. This decision was made in the interest of management efficiency and is not directly related to the broader review of the entire field structure.

MATRIX MANAGEMENT

Question: Another section of the management study identified the need to streamline "matrix management" at CPSC to cut costs. The budget justification does not reflect those organizational changes. Why not?

Answer: At the time the budget justification was submitted to the Committee, the Commission had not concluded its deliberation of the options included in the Price Waterhouse report or the recommendations of the Management Review Task Force related to this matrix management.

Subsequent to our submission for the budget justification, the Commission made the following decisions with respect to matrix management.

- To transfer the matrix management functions and personnel from the Directorate of Health Sciences (i.e., the Chemical Hazards Program) to the Office of Program Management (OPM).

- To establish criteria for the sunrise and sunset of hazard projects along with procedures for periodic critical reviews of such projects.
- To reduce the number of hazards from the current seven to the following four hazard programs: 1) Chemical Hazards, 2) Electrical/Mechanical; 3) Fire/Household Structures, and 4) Emerging Hazards/Vulnerable Populations, with the understanding that, in connection with the FY 1987 operating plan and subsequent budgets and operating plans, the Commission will determine what modifications, if any, are appropriate, taking into account the number and types of projects which result from the application of the sunrise/sunset criteria adopted by the Commission.

It should be pointed out that the possible adjustment in FY 1987 budget justification which would be necessary as a result of these organizational changes would be the shift of FTE's allocated for matrix management personnel in the Health Sciences Directorate to OPM.

Question: What about the recommendation to change the focus from program management to project management?

Answer: In reaching its decision, the Commission carefully considered the advantages and disadvantages, as well as the cost of this recommendation, as well as other options for reforms in the matrix management system which are delineated in the Price Waterhouse Report. The Commission decision related specifically to the organizational structure of OPM included the condition that, in connection with the FY 1987 operating plan and subsequent budgets and operating plans, the Commission will determine what modifications, if any, are appropriate, taking into account the number and types of projects which result from the application of the sunrise/sunset criteria adopted by the Commission.

INDOOR AIR QUALITY

Question: This Committee has been trying for some time to develop a coordinated approach by Federal agencies on indoor air quality research.

We added $250,000 and two FTEs to CPSC's budget in 1986 to support that effort. What is the total going to indoor air in 1986 for CPSC?

Answer: The 1986 resources for indoor air quality are $1,277,000 and 17.2 FTEs.

Question: What resources are requested for indoor air in the 1987 budget?

Answer: The 1987 resources for indoor air quality are $632,000 and 11.2 FTEs.

CONTRACT STUDIES

Question: For the record will you provide details on how much money is going for contract studies each year and for State grants for 1984 through 1987.

Answer: The following chart shows the total amounts for contract studies in the hazard program areas and the State and local contracts. The 1986 and 1987 figures do not take into account any reductions due to the Gramm-Rudman-Hollings bill (dollars in thousands):

	1984	1985	1986	1987
Contract Studies (Hazard Areas)..	$2,345	$2,838	$2,495	$1,190
State and Local Contracts........	100	100	250	250

OFFICE OF INFORMATION AND PUBLIC AFFAIRS

Question: Would you submit for the record an analysis of the resources and functions of your offices of Information, Public Affairs, and Media Relations -- before and after the reorganization.

Answer: Prior to the reorganization that created the Office of Information and Public Affairs (OIPA), the Consumer Product Safety Commission had essentially three organizations dealing with public contact and information distribution. These organizations were:

1. The Office of Outreach Coordination (OOC)
2. The Office of Public Affairs (OPA)
3. Some operations of the Office of the Secretary (OS)

The Office of Media Relations (OMR) was a part of the Office of Public Affairs at that time.

In 1985, the Office of Information and Public Affairs was created combining the functions of Outreach Coordination, Public Affairs and the Hotline and Graphics functions from the Office of the Secretary. The Office of Media Relations became a separate, identifiable unit reporting directly to the Chairman.

Before the reorganization the Office of Public Affairs had the following functions:

- Work directly with the media in providing Commission positions;
- Conduct liaison with business, industry, consumer organizations and other Federal and State government agencies to strengthen outreach efforts;

- Collaborate with the Office of Outreach Coordination in developing and promoting information programs.
- Coordinate press conferences relating to information programs.

The current Office of Information and Public Affairs has the following functions, which are a combination of the former Office of Public Affairs, the Office of Outreach Coordination, and some functions which were formerly a part of the Office of the Secretary:

- Develop and execute consumer product safety information programs;
- Coordinate Regional office outreach information programs;
- Liaison with business/industry trade associations, national consumer organizations, and other Federal agencies;
- Coordinate the development and production of print and electronic media materials;
- Provide graphic services;
- Liaison with education systems;
- Liaison with national magazines
- Serve as Secretariat to the National Poison Prevention Week Council;
- Coordinate and participate in special activities such as awards ceremonies, exhibits, conferences (including press conferences focusing on major outreach information programs);
- Publicize recalls through Consumer Alerts.

The Office of Media Relations deals with responses to and from the press concerning the Commission's positions and releases. As the Chairman is the major spokesperson for the Commission, the Director of OMR reports to the Chairman.

Resources prior to and after the reorganization as they appear in the current budget request are shown below:

	1984		1987	
	FTE	($in Thousands)	FTE	($in Thousands)
OOC	6.6	312	--	--
OPA	5.1	687	--	--
OS	22.9	1,111	16.0	653
OMR	--	--	2.0	129
OIPA	--	--	11.0	1,314
TOTAL	34.6	$2,110	29.0	$2,096

AVERAGE GRADE

Question: Page 100 of the justification shows average GS grade and salary. The 1985 actual average grade was 11.01 -- compared to last year's estimate of 10.86.

What explains this difference?

What steps are you taking to prevent the average grade to continue to increase in 1986?

Answer: The actual average grade level of 11.01 in 1985 was a reduction from the 1984 grade level of 11.08, even though it was slightly higher than our earlier estimate. Such small diffferences are of only marginal significance. Average grades are extremely difficult to control while the Commission is trying to reduce the FTE levels by attrition rather than RIFs or furloughs, since we have less control over what grade level positions will be vacated. Generally, the majority of employees that have left were support and professionals in lower grades.

In 1986, the Commission is reviewing the possibility of reducing the number of managerial and supervisory positions as part of the overall Gramm-Rudman-Hollings sequestration. Eliminating these higher level positions may ultimately result in lowering our average grade.

LAPSE OF SALARY FUNDS

Question: In 1985, CPSC had to lapse about $400,000 because of the statutory prohibition on moving money from personnel object classifications to other accounts.

Will that situation arise again?

Answer: We do not expect this situation to arise again. Employment levels declined in 1985 as the Commission tried to reduce staffing from the approved FTE level of 587 to the lower figure of 568 approved for 1986. The resulting salary savings could not be reallocated to other program efforts and the funds were lapsed.

As you know, we hope to achieve a large portion of our 1986 Gramm-Rudman-Hollings reduction by imposing a limited hiring policy during the year. This will reduce personnel costs well below the amount identified earlier to the Committee. However, under no circumstances do we plan to transfer funds budgeted for personnel compensation and benefits to other object classes.

The Office of Management and Budget has proposed as part of the President's budget request that Section 409 of the general provisions which apply to HUD-Independent Agencies appropriations be deleted in 1987. This language provided the statutory prohibition against moving funds from personnel object classifications to other accounts.

INTERAGENCY COMMITTEE ON INDOOR AIR QUALITY

Question: Is CPSC satisfied with the progress of the CIAQ (Interagency Committee on Indoor Air Quality) in developing a research plan?

Answer: The Committee on Indoor Air Quality was created at the suggestion of Congress to coordinate Federal IAQ research. It has been only partially successful. Communication between the technical and senior management staffs of the agencies has increased. However, real coordination in the development of a research plan has been hampered by two factors:

o The CIAQ has only an advisory role; decisions on project funding and design are made within agencies with varying degrees of CIAQ input as to the projects' relevance to overall research goals. However, discussions are continuing on the establishment of non-CIAQ advisory panels that could arbitrate decisions on research strategy among the agencies.

o The "Chair" of the CIAQ has not been rotated, but has stayed within EPA. Thus, most of the administrative burden has fallen on EPA's Office of Research and Development. Since the roughly $2 million in EPA's IAQ research is a minor part of EPA's approximately $300 million research budget, it has been burdensome for EPA's senior research management to mount a consistent effort to oversee the development of a comprehensive research plan.

Question: What is CPSC's view of the staging of indoor air research -- should present resources be targeted on a national monitoring study or on other aspects of the research? Why?

Answer: The scientific community with interest in Indoor Air Quality has, over the past four years, completed much excellent research in source characterization and modeling. These areas, particularly for unvented combustion appliances, are quite well understood, Much data has also been generated about the extent of exposure to volatile organic compounds indoors. However, our understanding of the extent of the national IAQ problem is currently limited by a lack of health effects data with which to interpret the available monitoring and human exposure data. Questions also remain about the adequacy of current monitoring technology and of how best to conduct a national multi-pollutant field study to achieve optimum results and prevent biases.

Thus, at this point, we conclude that the limited present resources should not be directed to a separate (non-National Health and Nutrition Examination Survey (NHANES)) national monitoring study, but should encompass a more balanced research program. The CPSC staff believes that research over the next several years should place heavy emphasis on the understanding of potential health effects, including neurotoxic and neuro-behavioral effects, of exposures to organic mixtures as found in indoor air, and on the irritant and sensitizing effects of identified indoor air contaminants. Limited additional research is needed to complete our understanding of the immunological and functional mechanisms involved in the human response to nitrogen dioxide exposure and to complete development of an animal model. Also, advances in monitoring technologies may enable researchers to conduct epidemiological studies of highly exposed or sensitive populations that would be much more powerful than those conducted in the past.

In addition, source characterization studies are needed to understand how consumer products contribute to the up to 150 different organics that are found in indoor air. The consumer products, structural characteristics, and consumer behaviors that contribute to current problems in indoor mold, fungus, allergen and pathogen exposure must be understood before these problems can be alleviated.

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U.S. Consumer Product Safety Commission

1987 BUDGET REQUEST

Submitted Concurrently to
the Congress and the Office of Management
and Budget

January 1986

COMMISSIONERS' STATEMENT

This Budget Request for Fiscal Year 1987 is submitted by the Commissioners of the Consumer Product Safety Commission.

Carol G. Dawson
Carol G. Dawson
Acting Chairman

Saundra B Armstrong
Saundra Brown Armstrong
Commissioner

Anne Graham
Commissioner

Terrence M. Scanlon
Commissioner

Stuart M. Statler*
Commissioner

* Commissioner Statler believes this budget is wholly inadequate to carry out the laws the Commission is mandated by Congress to enforce.

TABLE OF CONTENTS

Page

Commissioners' Statement i
Table of Contents ii
Appropriation Language iv
Budget Overview 1

FY 1986 Budget Request

    Summary of Resources from FY 1985 to FY 1987 6
    I. Commission Policy Development and Direction 7

    II. Product Safety and Enforcement

        Executive Direction 9

        Hazard Programs

            Emerging Hazards 11
            Fire and Thermal Burn Hazards 15
            Electrical Hazards 21
            Chemical Hazards 25
            Mechanical Hazards: Children's and Recreational Products 35
            Mechanical Hazards: Power Equipment 39
            Mechanical Hazards: Household Structural Products 42

II. Product Safety and Enforcement, continued

Page

On-going Headquarters Activities

Hazard Identification and Analysis 45

Engineering and Sciences 52

Information and Education 57

Compliance and Enforcement 62

On-going Field Activities 70

III. Administration and General Support 77

Appendix A

FY 1987 Priority Projects 80

Appendix B

Object Classification 99

Personnel Summary 100

Travel Ceiling by Organization 101

Resources by Organization 102

Appendix C

Detail of Permanent Positions 105

Staffing Charts - Full Time Permanent Positions 106

Appendix D

Consulting Services 112

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APPROPRIATION LANGUAGE PROPOSED BY COMMISSION

CONSUMER PRODUCT SAFETY COMMISSION

Federal Funds

General and Special Funds:

SALARIES AND EXPENSES

For necessary expenses of the Consumer Product Safety Commission, including not to exceed $500 for official reception and representation expenses, $33,000,000. Provided, that no funds are available after March 1987 for any Commissioners' offices located in the Logan Building. (Department of Housing and Urban Development - Independent Agencies Appropriation Act, 1986; additional authorizing legislation required).

BUDGET OVERVIEW

INTRODUCTION. The Consumer Product Safety Commission is an independent regulatory agency charged by Congress with the responsibility for preventing deaths and injuries which result from the use of consumer products. The Commission staff has estimated there are some 29,000 deaths and 33 million injuries associated with consumer products. 1/ The Commission's statutory purposes are to: (1) protect the public against unreasonable risks of injury associated with consumer products; (2) assist consumers in evaluating the comparative safety of consumer products; (3) develop uniform safety standards for consumer products and minimize conflicting State and local regulations; and (4) promote research and investigation into the causes and prevention of product-related deaths, illnesses, and injuries.

RATIONALE FOR A FEDERAL ROLE. The Office of Management and Budget (OMB) requests each agency to address the rationale for a Federal role in its particular area of concern and to indicate whether non-Federal entities could perform the same function. In section 2(a) of the Consumer Product Safety Act, the Congress found:

- An unacceptable number of consumer products which present unreasonable risks of injury are distributed in commerce.
- Complexities of consumer products and the diverse nature and abilities of consumers using them frequently result in an inability of users to anticipate risks and to safeguard themselves adequately.
- The public should be protected against unreasonable risks of injury associated with consumer products.
- Control by State and local governments of unreasonable risks of injury associated with consumer products is inadequate and may be burdensome to manufacturers.

1/ These estimates, designed to reflect the total universe of all consumer product-related injuries and fatalities, without regard to injury causality, are derived from National Center for Health Statistics data using procedures developed by CPSC.

FY 1985 and FY 1986 RESOURCE LEVELS. In FY 1985, the Commission's spending level was $36,455,000 which consisted of a regular appropriation of $36,000,000 and $455,000 of a $500,000 two year supplemental appropriation for the Cigarette Safety Act of 1984. The Commission utilized 560 full-time equivalent work years (FTEs) in FY 1985. The Commission's FY 1986 appropriation provides $36,000,000 and $45,000 remaining from the two year supplemental appropriation for the Cigarette Safety Act of 1984. It also provides a personnel ceiling of 568 FTEs.

BUDGET REQUEST FOR FY 1987. The Commission's FY 1987 budget request is $33,000,000 and 527 FTEs. The Commission has absorbed substantial reductions in funds and personnel since 1982, and will continue to do so in FY 1986 and FY 1987. Internal management steps which will be taken to accomodate these reductions include: (1) further streamlining of operations; (2) continued reduction or elimination of lower priority projects; (3) redirection of personnel to higher priority projects; and (4) increased emphasis on voluntary hazard reduction activities by individual companies and entire industries.

The reductions embodied in this request have been carefully considered, and the requested resources represent the minimum necessary to continue a viable safety program. Reductions have been made in management staff, clerical support, operating costs, and contract work. Nearly all the agency's ongoing activities and most of the hazard programs have been reduced from the FY 1986 appropriation level. However, the six priority projects identified below will continue to be fully funded. CPSC will utilize a combination of options to address any unforeseen product safety hazards which might arise during the year.

FY 1987 PROGRAM OVERVIEW. In FY 1987, the Commission will continue to fulfill its mission to protect the public through a variety of regulatory and nonregulatory activities which include:

- working with industry to develop voluntary standards;
- issuing and enforcing mandatory product safety standards;
- banning unsafe products when safety standards are not feasible;
- initiating and monitoring recalls of hazardous products;
- conducting public awareness campaigns on selected product safety issues;
- utilizing existing and initiating new contacts with consumer, business, and educational groups;

- strengthening and extending programs with State and local jurisdictions to encourage product safety and conduct safety activities; and

- collecting, analyzing and publishing injury and hazard data.

The Commission's budget preparation began with a selection of priority projects. The Commission continuously strives to identify those projects that present the most serious safety problems for consumers and to deal with them on a priority basis. This enables the Commission to focus its very limited resources on these important projects. In this context, the Commission "fully funds" priority projects to assure that they are completed within the shortest possible time frame. While a more complete explanation is provided in Appendix A, a summary of the priority projects selected for FY 1987 follows:

- All Terrain Vehicles. The Commission has estimated 78,000 hospital emergency-room treated injuries were associated with ATVs in the first nine months of 1985 and an estimated 66,956 in 1984. The estimated 1984 injuries are almost two and one-half times the number of estimated injuries in 1983 and more than seven times the estimated number in 1982. The Commission is aware of over 324 deaths associated with ATVs which occurred between January 1982 and September 1985. In FY 1987, the Commission will focus on the evaluation of the adequacy of a voluntary standard for ATVs and inform consumers of the hazards and safety practices with ATVs.

- Child Drownings. Each year over 600 people drown in backyard swimming pools in the United States. Of these, almost 300 are children less than five years old and 200 are children under two years of age. Additionally, over 2,000 children under five are treated each year in hospital emergency rooms for submersion injuries. The objective of this project is to reduce the number of child drownings and near drownings in residential swimming pools and spas. In FY 1987, the Commission will review and analyze the results of an FY 1986 study on child drownings; evaluate the effectiveness of barriers and alarms that have been recommended; maintain an injury and information materials clearinghouse; conduct an information program for parents and other caretakers of children about the potential hazards of residential swimming pools; and review the State and local codes for swimming pool barriers for those states that have the largest number of pool drownings.

- Fire Toxicity. More than two-thirds of the 4,300 annual residential fire deaths are the result of the inhalation of toxic combustion products rather than burns. Carbon monoxide is generally accepted as the major single cause of smoke inhalation deaths; however, there is increasing concern that other toxic gases may also play an important role in these deaths. The objective of this project is to reduce the staggering toll of death and injuries resulting from the inhalation of toxic gases.

In FY 1987, the Commission will continue to coordinate fire toxicity efforts with Federal, State, local, and industry interests, through advisory groups, joint investigative activities, and participation in the development of voluntary standards. CPSC will begin to utilize combustion toxicity data along with other fire parameters in a fire hazard model to make recommendations for product modification or usage.

o Poison Prevention. In 1984, an estimated 156,000 children under age five were treated in hospital emergency rooms for accidental ingestions, chemical burns, and other acute injuries associated with household substances. Accidental ingestions accounted for 84 percent of these injuries. The most recent data from the National Center for Health Statistics show 55 deaths in 1983 resulting from accidental ingestion of prescription drugs and household chemical products. The goal of this project is to reduce the exposure of young children to hazardous household chemicals by assessing the need for special packaging of unregulated chemical products, and by increasing the effectiveness of current special packaging regulations.

o Riding Mowers. An estimated 100 deaths each year are associated with riding mowers and garden tractors. In 1984, these products were involved in an estimated 50,000 medically attended injuries. The major hazard associated with the use of riding mowers and garden tractors is blade contact. Approximately 80 percent of the fatal accidents result from three typical hazard patterns: (1) mower backs over young child or other bystanders; (2) operator or passenger falls or is thrown from mower; or (3) mower overturns due to dynamic instability. The risk of injury associated with a riding mower is 50 percent higher than the risk with a walk-behind mower. In FY 1986, the Commission completed the preliminary hazard analysis, performed limited engineering tests to evaluate the proposed field test, and initiated phase two of the dynamic stability tests. In FY 1987, the Commission will complete analysis of injury data collected from 1983 through 1986, continue evaluation of the field test method in cooperation with the Outdoor Power Equipment Institute (OPEI), and complete phase two of the dynamic stability testing.

o Safety for Older Consumers. The Commission will participate in voluntary standard activities to implement recommendations from the national conference held in September 1985 and injury studies to improve the safety of products used by older people; encourage the support of businesses and industry to reproduce materials developed as a result of new information received from FY 1986 studies; distribute nationally a videotape and other informational materials based on FY 1986 studies; and encourage state and local groups whose constituency is the elderly to conduct seminars for older people and to train home safety specialists to use the CPSC household safety checklist.

BUDGET FORMAT. The Commission's FY 1987 budget request is organized in three sections, which describe the agency's programs and the allocation of staff and dollar resources. The three sections are:

I. Commission Policy Development and Direction - Commissioners and staff offices;

II. Product Safety and Enforcement - hazard programs and scientific, technical and field support; and

III. Administration and General Support - support services including personnel, accounting and finance, automated data processing, and contracts administration.

U. S. CONSUMER PRODUCT SAFETY COMMISSION

SUMMARY OF RESOURCES FOR FY 1985, 1986, and 1987
(Dollars in Thousands)

	FY 1985 Actual		FY 1986 Estimate		FY 1987 Estimate		Difference 1986 - 1987	
	FTEs	Funds	FTEs	Funds	FTEs	Funds	FTEs	Funds
I. Commission Policy Development and Direction	64	$3,772	63	$3,821	57	$3,629	-6	-$192
II. Product Safety and Enforcement								
Executive Direction	16	1,180	19	1,238	18	1,363	-1	+125
Hazard Programs								
Emerging Hazards	31	1,906	32	2,098	36	2,293	+4	+195
Fire/Thermal Burns	32	2,825	27	2,897*	18	1,227	-9	-1,670
Electrical	15	947	16	992	12	652	-4	-340
Chemical	30	2,486	32	2,135	26	1,683	-6	-452
Children's/Recreational Products	9	580	7	412	9	559	+2	+147
Power Equipment	22	1,604	26	1,823	22	1,471	-4	-352
Household Structural Products	6	393	6	317	6	507	--	+190
On-Going Activities								
Hazard Identification and Analysis	38	3,393	34	3,336	31	3,201	-3	-135
Engineering and Sciences	12	941	16	1,167	15	1,046	-1	-121
Information and Education	19	1,734	20	1,960	17	1,815	-3	-145
Compliance and Enforcement	47	2,958	47	2,930	47	2,935	--	+5
Field Activities	153	7,226	163	7,304	157	7,051	-6	-253
Subtotal, Product Safety and Enforcement	430	28,170	445	28,609	414	25,803	-31	-2,806
III. Administration and General Support	79	3,831	73	3,615	69	3,568	-4	-47
Total, Commission Resources	573	35,773	581	36,045	540	33,000	-41	-3,045
Workyears Subject to Ceiling	(560)	--	(568)	--	(527)	--	(--)	--
Unobligated Balance Lapsing	--	682	--	--	--	--	--	--
Reimbursements	--	380	--	405	--	405	--	--
GRAND TOTAL		$36,835		$36,450		$33,405		-$3,045

* Includes $45,000 in two-year funds carried over for the Cigarette Safety study.

I. COMMISSION POLICY DEVELOPMENT AND DIRECTION
(Funds in Thousands of Dollars)

FY 1985 (Actual)		FY 1986 (Estimate)		FY 1987 (Estimate)		Difference (1986-1987)	
FTE	Funds	FTE	Funds	FTE	Funds	FTE	Funds
64	$3,772	63	$3,821	57	$3,629	-6	-$192

Program Description

The goal of this program is to provide the policy and direction necessary to accomplish the Commission's mandate of protecting the public against unreasonable risks of injury associated with consumer products. The Commission requests 59 work years and $3,756,000 to carry out its policy and program direction functions in FY 1987.

Five Commissioners, appointed by the President with the advice and consent of the Senate, participate equally in policy-making decisions. The President appoints the Commission Chairman. The Chairman provides administrative and executive leadership for the Commission. The Commissioners establish priorities and objectives for the agency, thereby providing overall direction to the staff. In making decisions to reduce unreasonable risks of injury to the public from consumer products, the Commissioners consider the costs, benefits and legal consequences of particular actions.

In determining the Commission's overall direction, the Chairman and other Commissioners are assisted by several offices. These offices are:

o Office of the General Counsel. This office provides legal advice to the Commissioners, ensures that the Commission's activities are in accordance with applicable legal requirements, develops rules and regulations, writes necessary implementing documents, and represents the agency in Federal court litigation.

o Office of the Secretary. This office performs a number of the Commission's executive tasks, which include maintaining the official files, managing correspondence, and scheduling Commission meetings. It also administers the Commission's Freedom of Information Act program and ensures that Commission activities comply with the Privacy and Sunshine Acts.

o Office of Internal Audit. This office evaluates, analyzes, and reports on selected agency programs to ensure that all Commission activities are being conducted in the most efficient way. This office also has primary responsibility of ensuring the Commission's compliance with initiatives to eliminate waste and fraud.

o Office of Equal Employment Opportunity and Minority Enterprise. This office implements the Commission's equal employment opportunity program, including the upward mobility program, which enables staff to train for professional positions. Administration of Executive Order 11625, which directs Federal agencies to support and promote minority businesses, is also performed by this office.

o Office of Congressional Relations. This office maintains liaison with Congress on matters concerning the Commission.

o Office of Media Relations. This office provides liaison between CPSC and the print and electronic media by issuing all news releases, coordinating answers to media queries, and arranging media appearances for Commissioners and staff.

Proposed FY 1987 Activities

The Commission seeks 57 work years and $3,629,000 for this program in FY 1987. These resources will enable the Commissioners to provide overall direction to the agency. Within this program, CPSC will continue to utilize the minimum level of resources necessary to provide effective policy and program direction in order to preserve the highest level of resources possible for other program areas.

II. PRODUCT SAFETY AND ENFORCEMENT

A. Executive Direction

(Funds in Thousands of Dollars)

FY 1985 (Actual)		FY 1986 (Estimate)		FY 1987 (Estimate)		Difference (1986-1987)	
FTE	Funds	FTE	Funds	FTE	Funds	FTE	Funds
16	$1,180	19	$1,238	18	$1,363	-1	+$125

Program Description

This program consists of resources for the Office of the Executive Director; the Office of Budget, Program Planning and Evaluation; and the management level of the Office of Program Management. In FY 1987, the Commission seeks 19 work years and $1,254,000 for this program.

The goal of the program is to ensure the efficient operation of CPSC. The Executive Director oversees the development and implementation of Commission budgets and operating plans. The Commission's directorates, which include Epidemiology, Economic Analysis, Engineering Sciences, Field Operations and the regional offices, Health Sciences, Compliance and Administrative Litigation, and Administration, report to the Executive Director, as do the Office of Budget, Program Planning and Evaluation, the Office of Program Management and the Office of Information and Public Affairs.

The staff of the Office of the Executive Director and the Office of Budget, Program Planning and Evaluation develop the Commission's long-range plans, prepare the annual budget, prepare and monitor the annual operating plan, conduct management-analysis projects, and evaluate the impact of Commission actions and internal processes. The Office of Budget, Program Planning and Evaluation is also responsible for the administration of CPSC efforts under the Paperwork Reduction Act of 1981. Pursuant to this Act, the Commission has identified the reporting and recordkeeping requirements placed on industry by the agency, as well as the time associated with information voluntarily submitted by the public in response to requests from the Commission. During FY 1985, the Commission achieved a reduction of 50 to 75 percent in the volume of materials used in contract documents provided to vendors seeking to do business with the agency. In addition, the Commission has reduced the numbers of in-depth investigations by 40 percent from 4,267 in 1984 to 7,200. This will further reduce the burden. Further reductions are expected in FY 1986 and FY 1987.

The Office of Program Management (OPM) provides management for all hazard-related programs of the Commission other than the chemical hazards program, which is managed by the Directorate for Health Sciences. The Commission utilizes a multi-disciplinary team approach in each hazard area. OPM is responsible for coordinating input from directorates to ensure that the Commissioners receive an objective and comprehensive report on any particular issue. Only OPM management direction and support resources are included in this activity. Other resources for the Office of Program Management are included under individual hazard programs.

OPM and the chemical hazards program are responsible for managing all projects where voluntary standards are either being developed or revised. In FY 1985 there were over 50 products or product areas being addressed by voluntary standards in the Commission's hazard programs. Eleven participation level voluntary standards projects were included in this effort; forty-two monitoring level projects were also carried out. Participation level projects involve a greater amount of Commission staff time and contract dollar support than monitoring level projects. In FY 1986 there are fourteen participation level projects underway; thirty-one monitoring level projects are being carried out.

In addition, the Commission has designated a senior staff member to serve as its full-time voluntary standards coordinator. This staff member answers directly to the Commission's Executive Director. While the management responsibility for individual voluntary standards projects still rests with the CPSC hazard program staff, the voluntary standards coordinator directs efforts to increase overall support by the agency for voluntary standards.

Proposed FY 1987 Activities

The Commission is requesting 18 work years and $1,363,000 to provide resources for the ongoing activities of the Executive Director, the Office of Budget, Program Planning and Evaluation, and the Office of Program Management.

As in the case of the Commission's policy development and direction program, the Commission is requesting the minimum level of resources needed to maintain effective management of the agency. In FY 1987, the Commission will continue its initiatives under the Paperwork Reduction Act to reduce industry reporting burdens and improve information resource management within the agency. The agency will also continue management analysis activities to identify and implement more efficient modes of operation and organization.

II. PRODUCT SAFETY AND ENFORCEMENT
B. Hazard Programs
1. Emerging Hazards
(Funds in Thousands of Dollars)

FY 1985 (Actual)		FY 1986 (Estimate)		FY 1987 (Estimate)		Difference (1986-1987)	
FTE	Funds	FTE	Funds	FTE	Funds	FTE	Funds
31	$1,906	32	$2,098	36	$2,293	+4	+$195

Program Description

The emerging hazards program evaluates potential product hazards and identifies safety problems which require Commission action. The emerging hazards program supports the Directorate for Compliance and Administrative Litigation in its activities under section 15 of the Consumer Product Safety Act, particularly in the identification of defects in unregulated products. The emerging hazards program also supplements the other CPSC hazard programs, each of which has a well-defined list of projects to complete each fiscal year. Since there are minimal resources for new or unplanned activities in other hazard programs, the emerging hazards program addresses new projects in their initial stages.

The program has three components:

o Product Safety Assessment (PSA). This activity provides rapid response to demands for multidisciplinary, technical evaluations of newly identified product safety hazards. The PSA team's primary emphasis is to provide technical support to the Directorate for Compliance and Administrative Litigation in the determination of substantial product hazards under the authority of section 15 of the Consumer Product Safety Act. Technical evaluations are also performed in support of new-project identification and petition-evaluation activities.

o New-Project Identification (NPI). This activity assesses potential product hazards of a generic nature and develops plans for new projects for voluntary-standard development, mandatory-standard activity, or other remedial strategies. By identifying potentially serious safety hazards early and making industry aware of staff concerns about particular products, the Commission strives to have safety issues settled quickly without substantial cost to the agency and the firms involved. Projects to address newly detected hazards are normally assigned to the appropriate hazard program team. The NPI team may also initiate short-term actions to address potential hazards when a low resource effort is sufficient to correct a safety problem.

o Petitions-Evaluation and Special Projects. The Commission continues to receive petitions requesting rulemaking to address safety problems with various consumer products as well as to amend existing regulations. The Commission processes petitions under the Administrative Procedure Act. While this Act does not contain a specific time requirement for the processing of petitions, the Commission continues to address petitions as expeditiously as possible. In addition, short-term special coordination projects are assigned to the emerging hazards program when resources are not available within other hazard programs.

FY 1985 and FY 1986 Activities

o Product-Safety Assessment. In FY 1985, 550 individual product evaluations were completed. The Commission used these technical evaluations, which included engineering analyses, human factors studies and economic analyses, to determine whether to take recall action under section 15 of the Consumer Product Safety Act. About 630 evaluations will be performed in FY 1986. A more detailed discussion of section 15 activities is provided in the section on the agency's compliance and enforcement program.

o New Project Identification (NPI). In FY 1985, the new project identification team reviewed reports on approximately 20 potentially hazardous products, which resulted in actions to address 7 product hazards. Examples of Commission activity in FY 1985 which resulted from these recommendations include the following:

- Accidental strangulation of young children associated with window blind and drapery pull cords. Since January 1981 these cords have been associated with the deaths of 40 young children; 35 of the children were under the age of 2. Forty-one additional deaths were identified between 1973 and 1980. NPI prepared a consumer alert to be targeted to mothers of infants. NPI also contacted the industry trade association to advise members about the injury data and to explore ways in which the hazard could be reduced. As a result of the NPI analysis, the Children's and Recreational Products Program plans to include this hazard in its ligature strangulation project for FY 1987.

- Carbon monoxide poisoning deaths associated with the use of charcoal briquettes in confined areas. In the last 7 years, 83 people have died and 25 were injured when charcoal briquettes were used to cook or provide heat in homes, trailers, campers, trucks, and cars. NPI recommended that the warning on bags of charcoal be strengthened to more clearly warn people of the hazard. In addition, NPI prepared a consumer safety alert to warn the public of the danger of carbon monoxide build-up in confined spaces.

- Strangulation of children associated with recliner chairs resulting when children's heads became trapped between the leg rest and the chair seat. In FY 1985, NPI coordinated the issuance of a joint safety alert by the Commission and the American Furniture Manufacturers Association (AFMA). AFMA continued a voluntary effort to address the hazard through changes in chair design.

- Lacerations associated with attaching and removing blades on rotary power lawn mowers. The Commission was petitioned to require that mower blades be equipped with guards to prevent injury during blade-maintenance activities. The petition was denied because less costly, readily available substitutes could perform the same function. However, because there are an estimated 3500 injuries a year associated with blade maintenance, NPI successfully encouraged the industry association to have manufacturers provide instructions for safe handling of the blade. The association also agreed to revise the voluntary standard for lawn mowers accordingly.

- Shoulder injuries associated with the sport of lacrosse. The Commission considered a petition to establish requirements for shoulder pads used by lacrosse players. There are an estimated 1350 shoulder-related injuries to lacrosse players each year. Such injuries account for about 15 percent of all lacrosse-related injuries. NPI encouraged and received the cooperation of ASTM's committee on sports to develop a voluntary specification for the pads. NPI also provided injury data for the organization responsible for rules to encourage consideration of a rule to require players to wear shoulder pads.

In FY 1986, staff will review at least another 20 possible product hazards which will result in several additional planned projects and/or immediate short-term activities to address potential hazards. Also in FY 1986, the NPI staff will put additional emphasis on using the Commission's field offices to identify new product hazards for NPI review.

o Petitions-Evaluation and Special Projects. A petition is a method whereby any person may request the Commission to issue, amend, or revoke a consumer product safety rule. During FY 1985, the Commission denied three petitions. In FY 1986, the Commission will have sufficient resources to address the major issues raised in an estimated 2 to 4 petitions. Also during FY 1985, the emerging hazards program coordinated staff planning for the all-terrain vehicle special project, which was later approved by the Commission as an addition to the FY 1985 operating plan. The emerging hazards program will continue to respond to requests for special projects for which resources are not available in other hazard programs.

Proposed FY 1987 Activities

The Commission seeks 36 work years and $2,293,000 to continue the activities of this program.

- Product Safety Assessment (PSA). The PSA team will complete approximately 720 technical evaluations of new product safety hazards, including epidemiological, human factors, engineering, financial, and market analyses. This level of effort will be increased over the FY 1986 effort by approximately 90 evaluations.

- New-Project Identification. The NPI staff will review information on approximately 20 potentially hazardous products, which should result in at least 2 recommendations to establish new projects. The staff will also complete at least two short-term actions to address newly identified hazards. In 1987, the depth and timeliness of NPI product reviews and actions will be improved. Emphasis will be placed on reviewing Commission data systems for trends of frequency and severity which suggest emerging hazards. In addition, reviews will be conducted of product areas or classes, such as countertop appliances.

- Petitions-Evaluation and Special Projects. In FY 1987, the Commission plans to continue its petitions-evaluation and special projects at the same level as for FY 1986.

II. PRODUCT SAFETY AND ENFORCEMENT
B. Hazard Programs
2. Fire and Thermal Burns
(Funds in Thousands of Dollars)

FY 1985 (Actual)		FY 1986 (Estimate)		FY 1987 (Estimate)		Difference (1986-1987)	
FTE	Funds	FTE	Funds	FTE	Funds	FTE	Funds
32	$2,825	27	$2,897	18	$1,227	-9	-$1,670

Program Description

The long-range goal of the fire and thermal burns hazards program is to reduce the excessive number of deaths and the frequency and severity of injuries resulting from fires involving consumer products. In the United States, fire is the fourth leading cause of accidental death overall and the second leading cause of accidental death in the home. It has been estimated that about 5,400 fatalities were related to fire in 1984. Personal property damage from fires costs more than $6 billion a year. Fire deaths most often occur in the home. Among the 848,000 structural fires attended by fire services in 1984, there were an estimated 623,000 residential fires, which caused about 4,300 deaths. These deaths constitute 80 percent of all fire deaths.

To achieve the long-range goal, the major objectives of the program are to:

- reduce deaths and injuries due to consumer products which function as fuels or ignition sources; and
- reduce deaths due to toxic gases produced by consumer products during combustion.

The Commission's current method for achieving these objectives has several components. The Commission investigates injury patterns associated with fires to determine if specific consumer products appear to be involved. Research is pursued to develop knowledge and understanding of major risks. The Commission works closely with other Federal agencies which lack the Commission's regulatory power, but which can provide detailed data on fire incidents and causes. The Commission needs investigations, research, and data from other sources in order to address fire hazards associated with consumer products. Generally, if a product appears to be hazardous, the Commission works with voluntary standards groups to reduce the risk. A mandatory standard is developed only if the voluntary approach proves unworkable and if a mandatory standard is justified by a comparison of costs to benefits.

FY 1985 and FY 1986 Activities

- Upholstered Furniture. In 1983, an estimated 860 fatalities occurred as a result of 14,800 upholstered furniture fires started by cigarettes. The Commission is working with the industry's Upholstered Furniture Action Council to develop upholstered furniture more resistant to cigarette ignition. Several promising materials and techniques have been identified, some of which were very effective in improving the cigarette ignition resistance of residential upholstered furniture. However, furniture without box welts and furniture covered with predominantly cellulosic fabrics still ignite relatively easily, representing a continuing problem. The Commission is continuing to work with the industry to further improve the cigarette ignition resistence of these types of furniture. As new materials or techniques are encountered, they will be evaluated in the laboratory. The more promising of them will be tested in full-scale furniture.

- Bedding Fires. Mattresses and other bedding account for more fire deaths each year than any other home furnishings except upholstered furniture. A special study of bedding fires completed late in 1984 indicated that most of the mattresses involved in cigarette-ignited fires were manufactured prior to the 1973 mattress flammability standard. Laboratory tests with a variety of bedding combinations corroborated the effectiveness of the mattress standard in reducing smoldering ignitions. No further work on the cigarette ignition of mattresses is planned.

  The second major ignition source for bedding and mattresses is open flames, most frequently resulting from children playing with matches, lighters or candles. Techniques for reducing open flame ignitions of mattresses are under investigation.

- Wood- and Coal-Burning Heating Equipment. Analyses of fire incident data provided by the U.S. Fire Administration and the National Fire Protection Association indicate that there were 140,600 fires in 1983 involving solid fuel heating appliances, which is over twice the number of fires that occurred in 1978. These fires caused approximately 280 deaths. The Commission is participating with voluntary-standards organizations to expedite needed changes to voluntary standards and codes. Many of the Commission's recommended changes in this area are based on CPSC's test results. For example, in FY 1985 the Commission completed its project on metal chimneys. Through laboratory testing and fire investigations, CPSC determined that metallurgical failure of chimneys at typical operating temperatures, once thought to be a serious hazard, was not a major problem. However, testing of metal chimneys at temperatures designed to simulate chimney fires revealed that the current voluntary standard is deficient in this area. As a result, staff activity is continuing to be directed towards upgrading this voluntary standard.

Similarly, other critical solid-fuel problem areas such as masonry chimneys and fireplace inserts, were and will continue to be investigated in FY 1985 and FY 1986 through laboratory tests and hazard analyses. Changes to voluntary standards and codes will be sought where necessary.

In FY 1985, CPSC completed a review of industry compliance with its 1983 mandatory wood- and coal-stove labeling rule, which required labeling information on installation, use, and maintenance. Two-thirds of the firms which supplied the required information in 1983 and 1984 were in compliance with the rule or had only minor violations. The remaining one-third of the firms had violations worthy of follow-up activity. Enforcement efforts were implemented in FY 1985 to have these firms correct their labels. The Commission is continuing to work with the wood-heating industry to improve owner installation instruction manuals. A CPSC evaluation of these instructions in FY 1984 had indicated that many were seriously inadequate.

o Gas Heating Systems. Gas heating systems account for the majority of carbon monoxide deaths in the home; about 280 deaths occurred in 1982. Another 200 people die in fires associated with gas heating systems. Vented room heaters, water heaters, and central furnaces are the three principal products associated with the reported deaths and injuries. In FY 1985, a new voluntary standard provision was adopted to require that all new central furnaces be equipped with a safety device called a "thermal spill switch" that will shut off the furnace in the event that carbon monoxide or other products of combustion are not properly vented to the outside. This provision will become effective in FY 1986. Work was initiated to evaluate the role that combination control valves play in accidents involving water heaters and furnaces. The Commission is testing carbon monoxide and fuel gas detectors now being developed for residential use to determine their reliability as new safety devices for consumer use. An industry-CPSC ad hoc committee was established on flexible gas connectors in order to make recommendations to the voluntary standard organization on improvements to the existing standard to reduce the risk of gas leaks from connectors.

The Commission also completed a hazard analysis on central furnaces, participated in the development of a voluntary standard for catalytic heaters, and gathered information on safety problems with the liquified petroleum (LP) gas distribution system.

In FY 1986, the Commission will continue work to improve the voluntary standard for flexible gas connectors; conduct a consumer-use survey of gas customers; test the effectiveness of the "thermal spill" switch for central furnaces; continue an evaluation of combination control valves; and recommend ways to improve the safety of LP gas systems.

o Kerosene Heaters. Kerosene heater fire deaths doubled between 1982 and 1983, rising from 50 to 100. It is estimated that there were 2,000 kerosene heater fires in 1983. In-depth investigations were and will continue to be conducted and analyzed in FY 1985 and FY 1986 to determine the contributing factors to kerosene heater fires. The Commission is undertaking tests to study flare-up, which is the sudden uncontrolled expansion of flames beyond the heater cabinet and is the primary fire hazard associated with this appliance. Monitoring of the Underwriters Laboratories' voluntary standard for kerosene heaters will continue.

o Toxicity of Combustion Products. The inhalation of toxic combustion products is reported to cause more than two-thirds of the residential fire deaths in the United States. State of the art equipment to conduct the National Bureau of Standards (NBS) toxicity test protocol was installed in the Commission's laboratory, and testing will continue through FY 1986. Reviews of the literature on the combustion toxicity of 20 of the most commonly used plastics in consumer products was begun in FY 1985 and will continue into FY 1986. The Commission is continuing its liaison effort with other governmental agencies and has held periodic meetings, with representatives of up to 17 Federal organizations participating. In 1986 this effort will be expanded by the establishment of an advisory committee involving Federal, State and local governments, industry, and academia to assist the Commission in the assessment and transfer of developing technology. During FY 1985, the Commission monitored ongoing autopsy protocols. During FY 1986, the staff will continue to monitor progress in this area. Correlation work between the toxicity generated using a cup furnace versus a radiant furnace begun in FY 1985 will continue into FY 1986, as will the comparison of toxicity measured in small- versus large-scale tests. The study begun in FY 1985 at the National Academy of Sciences, co-sponsored by CPSC, EPA, FAA and the Department of the Navy, to develop guidelines for applying fire toxicity data to the material selection process will be completed in FY 1986. Fire models were reviewed in FY 1985 and some were selected for application to hazard assessment based on CPSC needs. In FY 1986, CPSC staff will modify and use computer models to predict hazards associated with specific fire scenarios. Toxicity of combustion products was a priority project for FY 1985 and will remain so for FY 1986 and FY 1987.

o Apparel Standards Modification. The Commission has made significant efforts to reduce the burden on industry resulting from CPSC apparel flammability regulations. Amendments to reduce testing and recordkeeping requirements with the general wearing apparel standard and amendments interpreting and clarifying the wearing apparel standard were completed in FY 1985. These amendments should reduce the costs related to the standards without significantly decreasing the safety provided to the consumer.

o Mattress Standard Modification. In FY 1985, the Commission issued final amendments to the mattress flammability standard, which eliminated requirements for production testing, revised procedures for substitution of ticking materials without performing new prototype qualification tests, and made various technical changes to the standard. These amendments to the standard are expected to reduce the costs of testing and recordkeeping to manufacturers of mattresses and mattress pads without decreasing the level of safety which the standard provides to consumers.

o Apparel Flammability. Burn injuries are among the most serious and painful of all injuries. CPSC continues to receive reports of serious burn injuries related to apparel. A review of this area was undertaken in FY 1985 to determine whether further Commission activity is warranted. The problems remaining with apparel flammability are being defined and possible approaches to resolving these problems will be recommended for Commission consideration. The report of the FY 1985 study of the flammability hazards associated with apparel will be available early in FY 1986.

o Cooperation with Other Organizations. The Commission maintains close working relationships with the Federal Emergency Management Agency, the National Bureau of Standards, the National Fire Protection Association, local fire officials and other organizations. These organizations provide the Commission with needed data on fire incidents and causes. The Commission can then identify and, if necessary, regulate significant fire hazards. These relationships provide a consistent, non-duplicative Federal approach to dealing with fire hazards.

o Cigarette Safety Act of 1984. Since the Cigarette Safety Act of 1984 became law in October, 1984, the Commission, the Department of Health and Human Services and the U.S. Fire Administration have been working together to see if a more fire-safe cigarette is feasible. A technical study group of 15 experts has been formed and has developed a plan for evaluating the ignition propensity characteristics of commercial and experimental cigarettes, and is gathering cigarette fire data, analyzing cost/benefit considerations and determining commerical feasibility. During FY 1986, the Commission received additional funds for implementation of the act. These funds will be used to complete the ignition propensity studies of experimental cigarettes with prescribed physical characteristics being conducted at the National Bureau of Standards, to obtain and analyze cigarette fire data, and to fund a mandated benefit/cost analysis.

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Proposed FY 1987 Activities

The Commission seeks 18 work years and $1,227,000 to continue the activities of this program.

o Wood Burning Heating Equipment. Research investigations relating to masonry chimneys and fireplace inserts will be translated into recommended changes to voluntary codes and standards. Interim amendments to the National Fire Protection Association Code pursued in FY 1985 and 1986 relative to wall pass-through and metal factory-built chimneys will be sought as permanent amendments.

o Gas Heating Systems. Commission efforts will continue in FY 1987 to find ways to reduce fire, explosion, and carbon monoxide (CO) poisoning hazards associated with furnaces, water heaters and LP gas systems, including attention to control valves, piping systems, and gas cylinders. Safety improvements will be proposed in voluntary standards and the National Fuel Gas Code, as appropriate. Work to encourage further development and use of CO and fuel gas detectors will continue.

o Cigarette Safety. The cigarette safety project is scheduled to be completed during FY 1987, according to the provisions of the Cigarette Safety Act of 1984. A report will be submitted to Congress which assesses the technical and commercial feasibility of the manufacture of cigarettes and little cigars which have a minimum propensity to ignite furniture and mattresses. This will be followed by policy recommendations to the Congress from the Interagency Committee, the Chairman of CPSC, the U.S. Fire Administrator (FEMA), and the Assistant Secretary for Health (HHS).

o Fire Toxicity. In FY 1987 the Commission will contribute its knowledge and expertise to voluntary standards organizations to seek the adoption of appropriate toxicity protocols to develop data which can be utilized in a total hazard assessment model.

The Commission will also cooperate with other Federal organizations, State and local jurisdictions and industry groups to develop standards for product modification or usage to reduce the overall fire hazard and the number of deaths caused from the inhalation of toxic combustion products.

II. PRODUCT SAFETY AND ENFORCEMENT
B. Hazard Programs
3. Electrical
(Funds in Thousands of Dollars)

FY 1985 (Actual)		FY 1986 (Estimate)		FY 1987 (Estimate)		Difference (1986-1987)	
FTE	Funds	FTE	Funds	FTE	Funds	FTE	Funds
15	$947	16	$992	12	$652	-4	-$340

Program Description

The long-range goal of the electrical hazards program is to reduce the number of deaths and injuries resulting from the use of electrical consumer products. The Commission estimates that consumer products within CPSC's jurisdiction are involved in 500 deaths that occur each year from electrical shock. Over 28 percent of all residential fires attended by fire services, or about 192,500 fires annually, are believed to be electrical in origin.

The Commission seeks to achieve the goal of reducing electrical hazard injuries with a three-part program. First, electrical hazards posed by particular consumer products such as hair dryers are identified and remedies are developed. Second, the Commission investigates the ways in which components of residential electrical systems, such as wiring, circuit breakers and fuse systems, may contribute to electrical hazards. Finally, the agency examines broader problems, such as electric current leakage, which are common to a wide range of electrical products.

FY 1985 and FY 1986 Activities

o Electrocution Hazards. Electrocution hazards were identified by the Commission as a priority project in 1986.

- Hair Dryers. Hand-held portable hair dryers are associated with an estimated 30 deaths per year. These deaths (mainly involving children) occur when a hand-held hair dryer accidentally falls into a tub of water while the victim is taking a bath. In FY 1984, Underwriters Laboratories (UL) proposed a new immersion test requirement in its standard, with a 1987 effective date. In FY 1985, interim requirements for polarized plugs and information on GFCI's in hair dryer packaging went into effect to reduce electrocutions. In FY 1986, the Commission will encourage UL to accelerate the effective date of the new requirement, evaluate proposed changes to the UL standard, and test current production models for shock hazard.

- Ground-fault Circuit Interrupters (GFCI's). GFCI's provide protection against shock hazard. The Commission supports the use of GFCI's to reduce electrocution risks associated with electrical appliances. In FY 1985, the Commission evaluated a GFCI type of device for hair dryers and recommended substantial changes to the National Electric Code for expanded requirements for GFCI circuit protection. In FY 1986, the Commission will (1) inform consumers of the availability of permanent and portable GFCI's that can be installed in homes to protect circuits; (2) demonstrate the application of miniaturized GFCI's in certain appliances; (3) propose changes to the National Electric Code to require GFCI's for additional areas of the home; and (4) encourage immediate and long-term changes in the requirements of the voluntary standard for hair dryers.

o Voluntary Standards. The Commission continues to participate in voluntary standards efforts to develop or upgrade standards to reduce the risk of electrical fire and shock. During FY 1985, CPSC staff met with UL regarding upgrading the standards on clothes dryers, coffee makers and toaster ovens. In FY 1986, the Commission will be involved in activities connected with heat tapes, clothes dryers and other products.

o Electrical Fire Investigations. Components of wiring systems in the home, such as wire and cables, overcurrent protection devices, connectors, switches, and outlets, may be involved in 25 percent of all home electrical fires. These fires account for approximately 400 deaths and 3,400 injuries each year. In FY 1985, the Commission continued detailed electrical investigations and laboratory analyses of major and minor fires to determine component causal factors. In FY 1986, the Commission will analyze data collected in previous years.

o Ranges and Ovens. Electrical ranges and ovens are involved in more than 60,600 fires, 3,600 injuries and 100 deaths each year. In FY 1985, the Commission completed a hazard analysis on these products and met with industry to discuss work on food-fire ignitions. In FY 1986, the Commission will work with voluntary standards and code group organizations to make changes that address the hazards identified.

- Electric Outlets. Electric outlet devices were found to be the single component most often identified as causing fires of electrical origin in a recently completed analysis of residential wiring fires. In FY 1986, the staff will monitor the contract awarded in FY 1985 to determine specific scenarios and use this information to initiate discussions with interested parties, e.g., Underwriters Laboratories, Inc., and the National Electrical Manufacturers Association (NEMA), to improve safety standards.

- Micro-circuitry (micro-processors, micro-electronics). Miniature circuits are included in products to control function, temperature, time, and other factors. This same technology could also be used to reduce fire and shock hazards associated with specific electrical products. In FY 1985, the Commission explored the safe use of these devices and ways they may improve the safety of consumer products. During FY 1986, the Commission staff will continue efforts begun in FY 1985 and perform limited tests on the failure modes of specific micro-processors.

- Portable Electric Heaters. In FY 1985, the Commission began evaluation of the UL standard on portable electric heaters and initiated testing of those models that appeared to be most frequently involved in fires. In 1986 this project was identified as a priority program of the Commission. During FY 1986, the Commission will continue the 1985 efforts and in addition, will develop informational materials that inform consumers of the safe use and maintenance of portable electric heaters. Finally, the Commission will develop and forward recommendations to UL for changes in the standard to address the hazard patterns identified by CPSC.

Proposed FY 1987 Activities

In FY 1987, the Commission seeks 12 work years and $652,000 to continue the activities of this program.

- Electrocution Hazards. CPSC receives reports of over 20 electrocutions each year associated with metal ladders. About the same number are electrocuted each year with power tools. In FY 1987, the Commission will conduct data collection and analyze ladder electrocution incidents. A technical review of industry practices and current material technology will be performed in order to make recommendations for standards revisions to reduce the number of electrocutions. The Commission will identify areas of concern with power tool use and recommend consumer education measures to address electrocution protection devices such as GFCI's. The Commission will continue to work with UL on the hair dryer standard (approximately 30 electrocutions per year), to support recommendations for changes to the National Electrical Code, and to support National Electrical Safety Month.

653

653

o Electrical Fire Investigations. The staff will complete analysis of fires originating in components of the electrical distribution system obtained in FY 1986. The final report will be used to direct recommendations and actions for code changes, technical evaluation of specific products, and consumer education to reduce fires, injuries and deaths.

o Electrical Outlets. Based on the results of the FY 1986 contract evaluations of receptacles involved in fires, the staff will implement the contractor-designed testing program capable of simulating 40 years use-experience for receptacles in residential applications. This information will be shared with UL and NEMA so that receptacle designs can be improved.

n Extension Cords. An estimated 7,400 fires involving extension cords occur annually. This project will include a hazard analysis and focus on an engineering evaluation of internal cord connections and cord insulation as contributing factors to fires. Recommendations will be made to improve the voluntary standard.

II. PRODUCT SAFETY AND ENFORCEMENT

B. Hazard Programs

4. Chemical

(Funds in Thousands of Dollars)

FY 1985 (Actual)		FY 1986 (Estimate)		FY 1987 (Estimate)		Difference (1986-1987)	
FTE	Funds	FTE	Funds	FTE	Funds	FTE	Funds
30	$2,486	32	$2,135	26	$1,683	-6	-$452

Program Description

The goal of the chemical hazards program is to reduce the number of deaths, injuries, and illnesses resulting from consumer exposure to hazardous chemicals in consumer products. To achieve this goal, the program strives to meet two objectives. First, the Commission attempts to limit exposure to hazardous chemicals in consumer products that may have acute effects, such as burns, poisonings and deaths. For example, in 1984, an estimated 400,000 people were treated in hospital emergency rooms for acute injuries associated with chemical consumer products. The second objective is to limit exposure to hazardous chemicals which may cause chronic, adverse health effects, such as cancer, neurotoxic disorders, birth defects, and deaths. The chemical hazards program also strives to reduce exposure to hazardous chemicals in the indoor air. These chemicals may be emitted from building materials or furnishings, from household cleaning and craft products, or from unvented heating and cooking appliances.

To meet its objectives, the Commission does the following:

- identifies potentially hazardous chemicals used in consumer products;
- assesses the potential risk to consumers by determining the toxicity of the identified chemicals, the amount of the chemicals present in consumer products, the extent of consumer exposure through foreseeable use or misuse of the products, and the marketing patterns of those products;

- develops options for reducing consumer exposure to hazardous chemicals and indoor air pollutants; and

- utilizes efforts of other agencies whenever possible. The Commission uses hazard assessments prepared by other government agencies and participates in the Department of Health and Human Services' National Toxicology Program to supplement its resources and minimize duplication of effort in dealing with acute and chronic chemical hazards.

FY 1985 and FY 1986 Activities

Poison Prevention Packaging Act (PPPA)

- PPPA Exemptions. In FY 1985, the Commission was petitioned to exempt specific aspirin-containing drugs from special packaging requirements. In FY 1986, the Commission will complete action on the petition and will consider other requests from industry for exemptions under the PPPA.

- Special Packaging. In FY 1985, the Commission completed evaluation of a petition to require special packaging for household bleach products. The Commission determined that these products do not pose a risk of serious illness or injury to young children, because of their packaging, and denied the petition. Topical prescription drug products and petroleum distillate products are involved in numerous accidental childhood ingestions each year. In FY 1985, the Commission investigated the possible need for special packaging of currently unregulated categories of these products. The Commission determined that, despite their high involvement in accidental ingestions, these products have not caused substantial numbers of injuries in young children. In FY 1986, the Commission will initiate an effort with the American Veterinary Medical Society to encourage voluntary special packaging of household veterinary prescription drugs.

- PPPA Protocol Testing. To comply with the PPPA, industry often tests packaging to ensure that it is child-resistant and not overly difficult for adults to use properly. The test procedures which have been used since enactment of the PPPA, are quite costly and complex. In addition, the test protocol does not include adults over age 45. Older consumers often have difficulty using child-resistant packaging and, consequently, abuse or misuse the packaging in the home. In FY 1983, the Commission published for public comment an advance notice of proposed rulemaking in the Federal Register of its intent to revise the PPPA test protocol.

In FY 1985, verification tests were completed. In FY 1986, the Commission will evaluate test data and propose appropriate revisions to the PPPA test protocol. These revisions are meant to reduce the testing burden in time and cost for industry, and to provide for the inclusion of older adults in the testing process. In FY 1985, the Commission also conducted studies to correlate human protocol test data with mechanical equipment that measures the forces required to open and close child-resistant packaging. These studies will continue in FY 1986. This equipment will be used to supplement human protocol testing of child-resistant packaging.

- Prescription Drug Ingestion Survey. In FY 1985, the Commission completed analysis of a pilot survey of accidental prescription drug ingestions associated with dual-purpose packaging. The Commission determined that it is not feasible, within budgetary contraints, to assess the impact of dual-purpose packaging on accidental childhood ingestions using the consumer survey technique. The pilot survey did show a high involvement of non-child-resistant packaging and grandparents' medication in accidental prescription drug ingestions in one region of the country. In FY 1986, the Commission will conduct additional surveys in other regions of the U.S. to determine if this is a nationwide problem and to determine methods of reducing accidental prescription drug ingestions.

o Strong Sensitizers. Certain chemicals cause severe allergic reactions in susceptible individuals. The Commission currently requires special labeling for only five such substances which are present in consumer products.

In FY 1986, the Commission will propose and adopt supplemental definitions to the Federal Hazardous Substances Act (FHSA) definition of "strong sensitizer." These definitions, developed by the Technical Advisory Panel on Allergic Sensitization (TAPAS) in 1985, provide criteria to be used by the Commission in designating substances as strong sensitizers under the FHSA. In FY 1985, the Commission completed, and submitted for TAPAS review, evaluations and recommendations for labeling on five groups of sensitizing chemicals in consumer products. In FY 1985, studies continued on exposure levels and thresholds of sensitization for strong sensitizers under review. In FY 1986, the Commission will, if appropriate, consider revising the FHSA labeling requirements for formaldehyde in consumer products and will complete review on four additional chemicals.

o Chlorocarbons. In FY 1985, the Department of Health and Human Services' National Toxicology Program reported that methylene chloride is an animal carcinogen. In accordance with generally accepted scientific principles, the finding of sufficient evidence of carcinogenicity in animals, and the absence of adequate carcinogenicity data in humans, means that for practical purposes, methylene chloride can be regarded as presenting a carcinogenic risk to humans. Results of experiments conducted to simulate consumer exposure to methylene chloride during aerosol spray painting and paint-

657

stripping operations indicate that the cancer risks to consumers are among the highest ever calculated for chemicals in consumer products. In FY 1985, the staff recommended that the Commission direct the staff to pursue voluntary standards activities to reduce consumer exposure to methylene chloride from paint strippers and spray paints. The staff also recommended that the Commission convene a chronic hazard advisory panel (CHAP). In FY 1986, the staff will evaluate results of shelf and consumer-use surveys describing exposure to household products which may contain methylene chloride and take appropriate action.

Results of long-term animal tests of perchloroethylene indicate that this chemical causes cancer in animals. The bioassay results presented in FY 1985 will be reviewed and a risk assessment prepared in FY 1986.

o Potassium Dichromate. In FY 1985, the Commission completed evaluation of a petition to ban potassium dichromate for use in home humidifiers, and denied the petition.

o Emerging Chemical Hazards. In FY 1985, the Commission prepared over 130 preliminary and 7 in-depth economic reports and more than 36 preliminary toxicity assessments of chemicals in the computerized data system for tracking emerging chemical hazards (STIC). It also completed preliminary recommendation reports for over 10 chemicals. These reports combine economic and toxicity assessments and recommend further activity, when appropriate, on toxic chemicals in consumer products. Monitoring major sources of toxicity data for chronic chemical hazards in consumer products and updating the STIC data base will continue in FY 1986. Also, the Commission will continue to investigate ways to track and evaluate chemicals which present chronic health hazards other than cancer.

o Textile Finishes. During FY 1985, the Commission examined the potential for dermal exposure to formaldehyde from finishes used to impart durable-press characteristics to apparel textiles. The study, which explored the association between formaldehyde levels on fabric and dermal sensitization, was carried out with the assistance of the textile industry. Both imported and domestic textiles were tested. The results of this testing will be evaluated against dermatological evidence on formaldehyde sensitization and additional tests will be developed, if necessary, in FY 1986. The Commission also will continue to evaluate the potential consumer exposure to biocides that may be hazardous, and recommend testing where warranted. Finally, in FY 1986 the Commission will complete evaluation of consumer exposure to the flame-retardant chemical, tris(1,3-dichloroisopropyl)phosphate, an animal carcinogen.

o Indoor Air Quality. Consumers may be exposed to potentially hazardous chemicals released from various household materials that are under the jurisdiction of CPSC. The Commission is currently investigating exposure to several substances which may have an adverse effect on indoor air quality.

During FY 1986, a workshop is planned to share information on monitoring techniques with State and local officials.

- Airborne Microbes. Cases of respiratory disorders, including hypersensitivity pneumonities are well documented with contaminated forced air heating systems and humidifers being among the most common causes. Hypersensitivity pneumonitis has also been caused by inhalation of microbial aerosols from saunas, home tap water and cold mist vaporizers. In FY 1986, studies will be undertaken, based on the scientific and technical guidance of the federal committee on Indoor Air Quality to determine appropriate remedial strategies.

- Combustion Products. The hazard to the millions of families who use unvented fuel-fired appliances results from the toxic gases produced by a burning flame. The Commission identified work in this area as a priority in FY 1985.

  -- Kerosene Heaters. During FY 1985, the Commission began a cooperative effort with Underwriters Laboratories (UL) and the National Kerosene Heaters Association to establish a standard test method to measure emissions from kerosene heaters. UL conducted tests comparing the hood and probe methods, and the Commission's engineering laboratory compared the hood and chamber methods. During FY 1986, the Commission will sponsor an Oak Ridge National Laboratories field study of nitrogendioxide levels in 50 homes that use kerosene heaters. These monitoring data will be correlated with any observed health effects in children living in the homes by researchers from the Harvard School of Public Health under sponsorship of the National Institute of Environmental Health and Safety. Discussions on standard test methods and emission standards for nitrogen dioxide and carbon monoxide are continuing. The success of these efforts toward a voluntary standard will be evaluated in FY 1986. At the request of the Chairman, the Administrator of the Environmental Protection Agency instructed the Clean Air Scientific Advisory Committee to provde an expert scientific review of the health effects of indoor nitrogen dioxide exposure. The report of the Committee will be received and reviewed in FY 1986. Clinical studies of the effects of nitrogen dioxide exposure on asthmatic adults and on children will continue in FY 1986. These studies are being conducted through an interagency agreement with the EPA. The studies will also evaluate biological markers of nitrogen dioxide exposure for potential use in future field studies.

  -- Unvented Gas Space Heaters. During FY 1985, the Commission conducted an in-home field study to determine pollutant levels in 25 homes using unvented gas space heaters. The Gas Research Institute completed a consumer-use survey. Discussions within the joint CPSC-industry task group continued on use of pollutant exposure modeling. The final hazard analysis for unvented gas space heaters will be made in FY 1986. Participation with voluntary standards organizations, such as the American National Standards Institute and the American Society for Testing and Materials, to develop voluntary standards to reduce health risks from pollutant emissions from unvented gas space heaters will continue in FY 1986.

-- Other Fuel-Fired Products. During FY 1985, concurrent with ongoing investigation and voluntary standards development on unvented gas and kerosene heaters, the Commission (1) evaluated data on emissions from coal- and wood-burning stoves and gas stoves; (2) studied technological improvements with kerosene heaters; and (3) tested catalytic add-on devices. In FY 1986, the Commission will continue to evaluate new technological developments with fuel-fired appliances, as necessary. Additional studies are being conducted on catalytic add-on devices and new-technology kerosene heaters.

o Asbestos in the Home. Asbestos has been used in a wide variety of products in the home. Some of these products may be deteriorating and releasing asbestos fibers, or the asbestos may be released during remodeling or renovation efforts. In FY 1985, the staff reported on data indicating strong evidence of the widespread use of asbestos materials in homes over 20 years old and the existence of such materials in damaged or worn condition. In FY 1985, the Commission again distributed over 10,000 copies of the consumer information booklet, "Asbestos in the Home," to assist consumers in dealing with in-place asbestos materials. In FY 1985, the Commission developed a program to enable its field offices to conduct, during FY 1986, limited monitoring to determine levels of asbestos fibers in the air of homes known to contain damaged asbestos materials. Also in FY 1986, the staff will prepare a supplement to the "Asbestos in the Home" booklet to provide further guidance to consumers.

o Asbestos in Products. Inhalation of microscopic fibrous particles of asbestos is recognized as a cause of lung cancer in humans. In FY 1985, the Commission developed risk assessments and options on ways to reduce consumer exposure to asbestos in products. In FY 1986, the Commission will complete action, including, if warranted, the beginning of rulemaking on certain consumer products that could expose consumers to asbestos fibers.

o Children's Chemical Hazards. The Commission initiated a priority project to address children's chemical hazards in FY 1983. In FY 1984 and FY 1985, the Commission continued this effort.

- Children's Exposure to Carcinogens. During FY 1985, the Commission reviewed industry efforts to voluntarily reduce or remove two identified carcinogens from children's products.

-- Nitrosamines. Testing during FY 1983 demonstrated that these carcinogenic substances could be ingested by a child sucking on pacifiers made of latex rubber. The Commission investigated the exposure to these substances and the potential risk involved and has worked with the industry to reduce or eliminate nitrosamine contamination of children's products. In FY 1984, the Commission issued an enforcement policy on nitrosamines in rubber pacifiers. This action was taken in coordination with a similar action on rubber baby bottle nipples by the Food and Drug Administration. The two actions established a maximum allowable level of 60 parts per billion (ppb) of volatile nitrosamines in pacifiers and nipples for consumer use introduced into interstate commerce after January 1, 1984. Testing in FY 1985 demonstrated, based on economic information, that companies having approximately 83 percent of combined pacifier sales in 1983 and 1984 have products with nitrosamine levels of less than 10 ppb. The industry has drafted a voluntary standard which was submitted to the American Society for Testing and Materials (ASTM) in FY 1985. In FY 1986, the staff will continue to monitor this voluntary standard through the ASTM consensus process.

-- Plasticizers. An estimated 5 to 8 million pounds of the plasticizer di(2-ethylhexyl) phthalate (DEHP) are used annually in producing children's products. DEHP has been shown to be carcinogenic in laboratory animals. Testing completed in FY 1984 demonstrated that children are exposed to DEHP through mouthing and skin contact with plastic articles (for example, teething rings) containing DEHP. Based on the results of the exposure testing and in-depth toxicity and risk assessments, in FY 1985 the Commission convened a chronic hazard advisory panel (CHAP) to evaluate the carcinogenicity of DEHP and received the CHAP's final report. Based on that report, the Commission will decide in FY 1986 what course of action, if any, to pursue.

o Interagency Support. The CPSC coordinates with other Federal agencies to share information, expertise, and facilities; to avoid duplication; and to seek consistent Federal approaches to common problems. In FY 1984, CPSC, the Environmental Protection Agency, the Food and Drug Administration, the Food Safety and Inspection Service of the Department of Agriculture, the Department of Health and Human Services, and the Occupational Safety and Health Administration formed the Interagency Risk Management Council (IRMC) to develop specific cancer and reproductive effects risk-assessment guidelines, to evaluate formaldehyde and methylene chloride, and to consider other issues of common concern.

In FY 1985, this coordination continued through the IRMC and later through various ad hoc groups. The Commission continued to participate in meetings of the Federal Asbestos Task Force to share current technological, scientific, and abatement information. Work was completed on the Office of Science and Technology policy of principles for the identification and evaluation of cancer-causing substances. The Commission co-chaired the Federal Interagency Committee on Indoor Air Quality and initiated the Interagency Fire Combustion Toxicity Workgroup, composed of representatives from 16 Federal organizations.

In FY 1986, the Commission will continue to work with other agencies on three CPSC FY 1985 priority projects: chlorocarbons, indoor air quality, and toxicity of combustion products. It will continue coordinating efforts with the HHS National Toxicology Program to test chemicals used in consumer products and will share information on a day-to-day basis with EPA on adverse health effects and consumer use of chemicals.

Proposed FY 1987 Activities

The Commission seeks 26 work years and $1,683,000 to fund activities designed to reduce deaths, injuries, and illnesses resulting from exposure to hazardous chemicals in consumer products.

o Poison Prevention Packaging Act (PPPA).

- PPPA Exemptions. The Commission will continue to process industry requests for PPPA exemptions.

- Older Consumers. The Commission will develop and award a contract to define a set of characteristics which can be used to evaluate the ability of older consumers to utilize child-resistant packaging. Data from these studies will identify important criteria for designing child-resistant packaging which can be successfully and conveniently used by the elderly.

- PPPA Protocol Testing. The Commission will complete action to revise the PPPA testing protocol. The Commission will continue to refine the mechanical closure testing equipment and will continue studies to correlate mechanical test data with human test results.

- Prescription Drug Ingestion Survey. The Commission will complete analysis of results of the FY 1986 consumer survey to determine impact of non-child-resistant packaging and grandparents' medication on accidental prescription drug ingestions. Based on survey results, the Commission will verify important causes of continuing high numbers of prescription drug ingestions, and will develop education and enforcement programs directed at the population at risk of exposing young children to prescription drugs.

o Glycol Ethers. In FY 1987, the Commission will continue its efforts to evaluate the potential risk to consumers from this class of chemicals, several of which have been found to be capable of causing birth defects or otherwise damage the reproductive health of the American people. The project will focus on 2-butoxyethanol, widely used in household products, which has been shown to have teratogenic potential. The project will also seek, though interagency activities, to develop consensus guidelines and principles for assessing studies on teratogenicity and reproductive toxicity.

o Chlorocarbons. In FY 1987, the Commission will pursue appropriate activities with the paint industry regarding chlorocarbons. This may involve developing consumer information and labeling on the chronic hazards of methylene chloride. Efforts will be made to evaluate the effectiveness of voluntary labeling programs undertaken in FY 1986. Staff will evaluate the extent of risk from use of paint strippers out-of-doors as well as from other household products which contain lesser amounts of methylene chloride.

o Emerging Chemical Hazards. In FY 1987, the staff will prepare approximately 60 preliminary and five in-depth economic reports, and 20 preliminary and 10 in-depth toxicity assessments on chemicals in the computerized data base for tracking emerging chemical hazards (STIC). Status reports with recommendations for about 10 chemicals are planned to be completed. These reports combine economic and toxicity reports and assessments recommending further activity, when appropriate, on toxic chemicals found in consumer products. Toxicity data collection from major sources of chronic health hazard information will continue, as will updating of data on the over 1,100 chemicals in the STIC data base. Staff will continue to monitor dyes and biocides used in consumer products for potential hazards to consumers. They will also continue to track and analyze chemicals that present chronic health hazards other than cancer. Investigating toxicity data collection with other federal agencies will be explored. Reporting on the Department of Health and Human Services' Annual Report on Carcinogens will be made, as well as chemical nominations for testing by the National Toxicology Program.

o Indoor Air Quality. The Commission will continue to coordinate its efforts on indoor air quality through the Federal interagency Committee on Indoor Air Quality (CIAQ). The Commission's program, consistent with strategy presented to Congress by the CIAQ, will emphasize providing information and technical guidance to State and local authorities and active participation in voluntary standards activities toward the improvement of indoor air quality.

o Asbestos in the Home. In FY 1987, the Commission will continue coordination with State and local government, private organizations, and homeowners to encourage data collecting/sharing and to provide technical assistance regarding asbestos in home concerns.

o **Voluntary Standards**. A number of organizations have implemented or are in the process of implementing voluntary standards which will serve to reduce consumer exposure to hazardous chemicals. The Commission will continue to assist these groups and monitor the effectiveness of these consumer safety efforts.

o **Federal Hazardous Substances Act Labeling**. In FY 1987, the Commission will work with industry in an effort to provide precautionary and first-aid labeling instructions that are more easily understood by consumers. The Commission will attempt to develop a systematic approach to labeling for chronic hazards. Efforts to develop labeling instructions for proper disposal of hazardous household products, where appropriate, will continue to be coordinated with interested industries, agencies, and State and local jurisdictions. The Commission will continue to work with the industry to define for consumers the precautionary labeling instruction: "Use adequate ventilation".

II. PRODUCT SAFETY AND ENFORCEMENT
B. Hazard Programs
5. Children's and Recreational Products
(Funds in Thousands of Dollars)

FY 1985 (Actual)		FY 1986 (Estimate)		FY 1987 (Estimate)		Difference (1986-1987)	
FTE	Funds	FTE	Funds	FTE	Funds	FTE	Funds
9	$580	7	$412	9	$559	+2	+$147

Program Description

While attempting to protect the general public from the unreasonable risk of injury from consumer products, the Commission will continue to pay special attention to children. Because they may not detect hazards or respond to them appropriately, children are especially vulnerable to injury.

To achieve the long-range goal of protecting children from dangerous products, the Commission has two major objectives:

- to reduce injuries from toys and nursery products. Often consumers assume that products intended for children are "safe," but an estimated 209,200 persons were treated in hospital emergency rooms during 1982 after accidents involving such products; and
- to reduce injuries from recreational products such as select juvenile sports equipment, which were involved in an estimated 1,896,000 injuries during 1982.

FY 1985 and FY 1986 Activities

o Age-Labeling. Inconsistencies exist in industry age-labeling practices for children's products. The Federal Hazardous Substances Act regulations pertaining to children's products depend on a staff determination, using the best professional judgment, of the intended age of the user.

These determinations must be made when assessing a product for defects, evaluating a corrective action plan, and conducting enforcement activities. In FY 1985, a contract was awarded to develop age-labeling guidelines that are comprehensive and consistent with input from industry and child-development experts. Proper age-labeling would reduce product hazards and injuries. When completed in FY 1986, the guidelines will be used by the Commission as well as by manufacturers to design articles for various age categories and by consumers to select appropriate articles for their children.

- Juvenile Sports Equipment. In FY 1983, it is estimated that there were 150,000 emergency room-treated baseball injuries involving children in the 5-to-14 age bracket; approximately 86,500 of these injuries were received while playing organized baseball or softball. Among the most frequent and severe injuries are baseball-related chest impact injuries and deaths. The CPSC is aware of at least 20 such deaths. In FY 1984, the Commission began analyzing data from available sources and awarded a contract to develop data on baseball-related chest impact. In FY 1985, the staff obtained, under contract, information on baseball-related chest impact. In FY 1986, the staff will inform the Commission of options to address these injuries and deaths. The staff will also provide the contractor data to appropriate user groups.

- Structural Entrapment. The Commission is aware of over 470 structural entrapment incidents with consumer products since 1973 involving children through the age of 9 years; approximately 72 percent of the incidents resulted in fatalities. Approximately half of the 470 incidents involved children less than 1 year of age. In FY 1984 and FY 1985, the Commission initiated efforts to analyze the entrapment hazard associated with various products (for example, crib extender rails, bed rails, preschool play equipment and children's furniture). Included in this effort is development of specific anthropometric data, previously unavailable, which will aid staff evaluations of potential entrapment hazards of children's products. In FY 1986, the Commission will develop strategies and recommendations for future action.

- Voluntary Standards. In FY 1985, the staff monitored or provided support for voluntary standards involving high chairs, play yards, strollers, walkers, gates and enclosures, cribs, toy chests, toy safety, home playground equipment and non-powder guns. Based on injury data and product testing evaluation, in FY 1986 the Commission will continue to work with the industries involved to improve existing standards or to develop new standards for toys, baby walkers, carriages, strollers, playpens, high chairs, hook-on chairs, home playground equipment, baby gates/enclosures, non-powder guns and projectiles, amusement rides, cribs, and home exercise equipment. New work will be initiated as warranted to address hazards identified with other children's and recreational products.

o Crib Structural Integrity. Injury data indicate that there have been over 167 incidents including 34 deaths between January, 1980, and May, 1984, which may be related to failure of crib hardware and glued joints. In FY 1985 and FY 1986, the Commission has worked and will continue to work with industry on a voluntary standard. In addition, the agency will conduct tests to develop appropriate standards recommendations to address any hazards.

o Ligature Strangulation. From 1978 to 1984, crib toys with strings have been involved in at least 24 strangulations. In FY 1985, the Commission evaluated incident data on toys with strings, with emphasis on those intended to be strung across a crib. In FY 1986, the staff will prepare hazard and human factors analyses of incidents, as well as determine the adequacy of string length and labeling provisions in toy safety voluntary standards.

o Toy Safety Support. Each year during the holiday season, the Commission compiles current information on toy-related injuries and hazardous toys recalled during the previous year for use in press conferences and media interviews. The Commission checks the market for new toys that appear during this time of year for potential hazards.

Proposed FY 1987 Activities

The Commission requests 9 work years and $559,000 for this program in FY 1987.

o Bicycles. Preliminary screening of incident data indicates that in 1984, an estimated 557,000 injuries were treated in hospital emergency rooms. In addition, nighttime bicycling deaths have increased from an estimated 304 to 372 per year, an increase from 30 percent to 42 percent of all bicycling deaths. The Commission will evaluate available incident data for bicycles and related equipment to identify problem areas and develop remedial strategies to address the problem. This work will include an evaluation of the 1976 mandatory rule for bicycles to determine the adequacy of the respective provisions.

o Playground Equipment. In 1984, there were an estimated 208,000 injuries treated in hospital emergency rooms, with 61,000 (29 percent) of these injuries involving children under age 5. Previous Commission work focused on children over age 5. Play behavior of children under age 5 on such equipment is different from older children; thus injuries occur differently. In FY 1987, the Commission will begin to evaluate available data to define hazard patterns that exist based on the play behavior of this age group and will develop remedial strategies to address the problem.

o **Voluntary Standards**. The Commission will continue to monitor and provide support for the development and revision of voluntary standards for various children's articles. The industry will be provided with current injury data and technical support to maintain the effectiveness of voluntary standards activities that address children's and recreational products. New work will be initiated as warranted to address hazards identified with other products in this program area.

o **Structural Entrapment**. In FY 1987, the Commission will implement recommendations to address the structural entrapment hazard presented by consumer products either on a product type, brand, or generic basis. Options may include voluntary or mandatory standards development, section 15 product defect correction procedures, or cooperative efforts with industry to eliminate the hazard and to disseminate informational guidelines.

o **Ligature Strangulation**. The Commission will expand and continue work initiated in FY 1986 that addressed hazards identified with crib toys with strings. The Commission will include other household products with strings or cords that have been identified as being involved in infant strangulations.

o **Toy Safety Support**. The staff will continue to provide information to respond to the heavy consumer demand for safety material concerning toys and children's products. Requests from consumers and the media for such information related to children's products, especially toys, peak during November and December each year.

II. PRODUCT SAFETY AND ENFORCEMENT

B. Hazard Programs

6. Power Equipment

(Funds in Thousands of Dollars)

FY 1985 (Actual)		FY 1986 (Estimate)		FY 1987 (Estimate)		Difference (1986-1987)	
FTE	Funds	FTE	Funds	FTE	Funds	FTE	Funds
22	$1,604	26	$1,823	22	$1,471	-4	-$352

Program Description

The goal of the power equipment program is to reduce the number of accidents associated with power tools and yard and garden equipment. There were more than 700 deaths and 700,000 power equipment-related injuries that required medical treatment in 1981.

To accomplish this long-range goal, the Commission identifies the hazards associated with particular consumer products and the most timely and effective way of correcting these hazards. For hazards associated with a class of products, such as chain saws, the Commission seeks development or upgrading of voluntary standards before considering a mandatory standard. In addition, section 15 of the Consumer Product Safety Act may be used to address substantial product hazards by removing such products from both the marketplace and consumers' hands. The Commission also publishes educational materials to inform consumers of hazards associated with specific products.

FY 1985 and FY 1986 Activities

o Riding Mowers. In 1980, riding mowers were associated with an estimated 100 deaths. FY 1984 data shows 50,000 medically attended injuries. In FY 1985, the staff continued to monitor the progress of the Outdoor Power Equipment Institute's (OPEI) effort to develop improved requirements for the American National Standards Institute voluntary standard. In FY 1986, the Commission will continue engineering and epidemiological work necessary to contribute to the upgrading of the voluntary standard for riding mowers. This project was designated a priority project for FY 1985 and 1986 to address the hazard associated with overturning and stability.

o All-Terrain Vehicles (ATVs). Based on available data, the Commission has preliminarily determined that there may be an unreasonable risk of injury associated with the use of all-terrain vehicles that may be sufficiently severe to require regulatory action by the Commission. The Commission is aware of over 324 deaths associated with ATV's occurring between 1982 and 1985. Estimates on the number of hospital emergency-room-treated injuries associated with ATVs in 1984 was 66,956. This is almost two-and-one-half times the number of estimated injuries in 1983 and more than 7 times the estimated number in 1982. In FY 1985, Commission work on this project was designated a priority. During FY 1985, the Commission voted to commence rulemaking proceedings by issuing an advance notice of proposed rulemaking in the Federal Register, and at that time the Commission also adopted a number of measures intended to assist in obtaining further information on the hazards associated with ATVs. Commission staff and the Specialty Vehicle Institute of America initiated voluntary standards development in FY 1985. Other FY 1985 efforts focused on: (1) defining and establishing methods to evaluate (test) ATVs for their safety performance; (2) determining the feasibility of establishing the analytical capability for evaluating ATV performance; (3) defining and establishing a format for publishing comparative safety findings; (4) developing a NEISS questionnaire and guidelines for collection of in-depth investigations; and (5) developing an exposure questionnaire for conducting an economic survey.

In FY 1986, work on this priority project will focus on: completion of recommendations for provisions for a voluntary standard and completion of technical work, including hazard analysis, an exposure survey, completion of contract work on engineering, human factors and medical analyses, and preparation of an options paper for Commission consideration.

o Chain Saws. Commission work on chain saws was designated a priority project in both FY 1983 and FY 1984. There were an estimated 22,000 medically attended injuries in 1983 and 12 deaths resulting from the rotational kickback of chain saws. During FY 1985, the Commission completed its work with the American National Standards Institute for acceptance of the Chain Saw Manufacturers Association's voluntary kickback standard. The Commission terminated its notice of proposed rulemaking to develop a mandatory standard. This reflects the agency's successful efforts in working with industry to upgrade the voluntary standard. CPSC staff also will continue a joint effort with industry in FY 1986 to address non-kickback injuries, which are estimated at 92,000 per year but generally are less life-threatening than the more severe kickback injuries. In FY 1986, Congress appropriated additional funds to address non-kickback injuries. The funds will be used to perform additional in-depth investigations.

o Voluntary Standards. In FY 1986, this Commission project will focus on monitoring voluntary standards efforts in the following areas: walk-behind power mowers, including thrown objects, power soil tillers, and garage door operators. These products accounted for more than 25 deaths and 35,000 medically attended estimated injuries in 1981. The project provides resources to continue Commission work which was initiated in FY 1983.

Proposed FY 1987 Activities

In FY 1987, the Commission seeks 22 work years and $1,471,000 to accomplish program objectives.

o Riding Mowers. In FY 1987, the staff will complete analysis of injury data collected from 1983 through 1986. A preliminary economic evaluation will be performed and phase two of the dynamic stability investigation contract will be completed. The staff will continue to evaluate the field test method and cooperate with the Outdoor Power Equipment Institute working group on the results of the FY 1986 work on injuries/deaths related to back-over and tip-over accidents.

o All-Terrain Vehicles (ATVs). In FY 1987, the staff will implement the Commission decision on the options presented by the ATV Task Force in the fourth quarter of FY 1986. The effectiveness of the voluntary standard will be evaluated with respect to medical, engineering, and epidemiological considerations. Human factors analyses regarding labeling and education material will also be conducted.

o Chain Saws. In FY 1987, the staff will continue to collect hazard data and to perform human factors, engineering, and economic work associated with evaluation of the new standard and evaluation of replacement chains in the marketplace. Outreach materials will be updated. American National Standard Institute review committee work to investigate new requirements that address chain saw injuries will be monitored.

o Garage Door Openers. This project will investigate alternative means to avert entrapment, including means to retrofit existing doors. Recommendations for addressing this hazard will be developed.

II. PRODUCT SAFETY AND ENFORCEMENT

B. Hazard Programs

7. Household Structural Products

(Funds in Thousands of Dollars)

FY 1985 (Actual)		FY 1986 (Estimate)		FY 1987 (Estimate)		Difference (1986-1987)	
FTE	Funds	FTE	Funds	FTE	Funds	FTE	Funds
6	$393	6	$317	6	$507	--	+$190

Program Description

The goal of the household structural products program is to reduce injuries from consumer products that are fixed in place in or around the home. These products, which represent major financial commitments by consumers, are often selected and installed by architects and home builders. It is neither economical nor feasible for the consumer to replace many household structural products once they are installed. Poor product design, therefore, may result in lifelong exposure to a hazard. To meet the goal of reducing the estimated 8.2 million household structure-related injuries which occur annually, CPSC has several objectives. These include: (1) reviewing building codes to identify areas where modifications are needed to improve safety; (2) distributing CPSC safety information to increase consumer awareness of safety hazards; (3) pursuing design changes to improve safety; and (4) developing voluntary and mandatory standards needed to reduce hazards.

While increasing consumer safety, the Commission attempts to avoid the burden of unnecessary or duplicative regulation. When a hazardous product is identified, the Commission works with industry in a voluntary effort to improve safety. For example, CPSC has worked with the American National Standards Institute, the American Society for Testing and Materials, Underwriters Laboratories, and others to improve the safety of ladders, bathtubs and shower stalls, electric water heaters, spas, and hot tubs. The Commission also works with others interested in product safety, such as the National Institute of Building Sciences and model building code organizations, to improve building codes. The

672

model building codes have adopted the CPSC safety standard on architectural glazing materials. If a voluntary standard is not feasible to deal with an unreasonable risk of injury, the Commission may consider a mandatory standard.

FY 1985 and FY 1986 Activities

o Pressed Wood. Formaldehyde gas is released from particleboard and decorative wall paneling as well as other types of pressed-wood products. Since 1977, the Commission is aware of over 2,700 complaints from consumers who have reported adverse health effects believed to be associated with formaldehyde released by these products. In FY 1985, Commission efforts focused on: (1) developing a formaldehyde exposure and risk assessment for consumers living in conventional homes; (2) laboratory testing to validate mathematical models that predict formaldehyde emission from pressed wood; (3) learning about alternatives available to the industry for reducing formaldehyde emissions from their products; and (4) determining the effect of barriers, such as carpet and carpet padding, on formaldehyde release. In FY 1986, the Commission will complete its risk assessment on formaldehyde released from pressed wood, make recommendations to the industry about requirements that should be included in a voluntary standard and monitor the development of that standard, and evaluate the effectiveness of remedial measures in reducing the formaldehyde concentration in homes.

o Voluntary Standards. In FY 1985, the Commission participated in the development of a voluntary standard for drain suction fittings used in pools, spas, hot tubs and whirlpool baths. The standard is intended to address the risk of hair entanglement. The Commission co-sponsored a national pool and spa safety conference to develop ideas on ways to reduce child drownings and diving injuries in swimming pools. In addition, activities to initiate the development of a voluntary standard for stepstools were implemented. Finally, an engineering analysis of the adequacy of existing voluntary standards for solar energy devices was completed.

In FY 1986, the Commission will evaluate the adequacy of the existing voluntary standard for stepladders.

o Child Drownings. In FY 1985, the Commission co-sponsored a national conference on swimming pool safety. The purpose of the conference was to find ways of reducing the number of child drowning and diving accidents that occur in residential swimming pools. In FY 1986, the Commission will participate in working groups formed at the 1985 conference in order to find ways of reducing swimming pool deaths and injuries. Also, the Commission will conduct a special study on pool drownings in order to develop a better understanding of the circumstances surrounding the drownings of children less than 5 years of age in residential pools.

o Oxygen Depletion Safety Shutoff System (ODS) for Unvented Gas-Fired Space Heaters. In FY 1985, the Commission revoked its mandatory standard requiring an ODS on unvented gas space heaters. The Commission found that a mandatory standard was no longer needed since a voluntary industry standard was adequate to protect consumers from carbon monoxide poisoning.

Proposed FY 1987 Activities

The Commission seeks 6 work years and $507,000 to continue the activities of this program.

o Child Drownings. This priority project in FY 1987 will address the more than 600 people who drown in backyard pools in this country. The Commission will inform parents and other caretakers of children under five years of age, who represent almost half of the victims, about the hazards of residential pools. Data collected in FY 1986 will be analyzed in order to develop a better understanding of the circumstances surrounding these incidents. Staff will continue to participate in the working groups established following the FY 1985 National Pool and Spa Safety Conference.

o Older Consumers. Necessary staff technical support will be provided to the priority project on Safety for Older Consumers. Specific activities identified during the September 1985 Conference on Older Consumers will be undertaken, especially those involving the participation with voluntary standards organizations.

II. PRODUCT SAFETY AND ENFORCEMENT

C. Ongoing Headquarters Activities

1. Hazard Identification and Analysis

(Funds in Thousands of Dollars)

FY 1985 (Actual)		FY 1986 (Estimate)		FY 1987 (Estimate)		Difference (1986-1987)	
FTE	Funds	FTE	Funds	FTE	Funds	FTE	Funds
38	$3,393	34	$3,336	31	$3,201	-3	-$135

Program Description

The goal of the hazard identification and analysis program is to support the Commission's hazard program and other activities in the areas of injury data and economic analysis. Injury data activities are performed by the Directorate for Epidemiology, and economics work is conducted by the Directorate for Economic Analysis. To meet this goal, the program has the following objectives:

Hazard Analysis

- collect and analyze injury data to identify product-related hazards and estimate the frequency and severity of injuries associated with them;
- conduct epidemiological analyses to determine the human, environmental, and product-related causes of accidents;
- assess the effects of product safety standards and programs on consumer injuries; and
- respond to statutory requirements to distribute information to the public.

Economic Analysis

- evaluate the economic impact of Commission safety standards and regulations;

- prepare Regulatory Flexibility Act analyses to assess the effect of regulations on small business; and

- prepare studies that provide specialized economic support data, methodological approaches and services that cut across hazard, product and program lines.

FY 1985 and FY 1986 Activities

Hazard Analysis

o Injury Data Collection. To obtain an accurate estimate of the number and different types of injuries caused by consumer products, the Commission collects information from a variety of sources.

- Data-Collection Initiatives. The Commission recognizes the need to explore ways of obtaining more and better information from sources other than the National Electronic Injury Surveillance System (NEISS) and in FY 1985 continued targeting non-NEISS data-collection in its priorities, major hazard projects, and any emerging hazard trends or patterns deserving special focus. The Commission has allocated resources to expand and improve its data base to sources apart from the NEISS-based hospital emergency rooms. In FY 1986, primary emphasis will be placed on developing the most promising sources identified in FY 1985. These sources include fire incident reports from local fire departments, survey data from ambulatory care clinics and physicians' offices, and hotline reports from specific physician groups. Parallel efforts will continue to identify and evaluate any sources likely to provide support to Commission priority projects.

- NEISS. In FY 1985, approximately 180,000 injury cases involving approximately 800 categories of consumer products were collected through NEISS, a system which receives consumer injury data from a nationally representative sample of hospital emergency rooms. Because the hospitals are statistically selected, national estimates of product-related injuries can be provided on all categories of consumer products. CPSC conducted telephone follow-up investigations on approximately 1,000 of these cases and on-site investigations on 200. Cases selected for investigation from NEISS, because of their statistical character, can be used to project the number and severity of hazard patterns. In FY 1986, the Commission will continue to collect injury data through NEISS and to perform follow-up investigations. NEISS is expected to provide 180,000 injury cases and 1,000 telephone investigations.

- Investigations. In FY 1985, approximately 1,400 injury reports from news clips, consumer complaints, and other sources were investigated to learn more specific details about the products involved and their roles in the accidents. Approximately 400 of these cases were investigated on-site; the remainder were investigated by telephone. In FY 1986, the Commission will investigate approximately 1,400 cases from these sources.

- Incident Data. In FY 1985, approximately 10,000 newsclips and 5,000 consumer complaints were collected, reviewed and processed by Commission staff. These reports provided vital information on consumer product hazards and represent a rich source for investigation and hazard analysis. In FY 1986, approximately 10,000 newsclips and 5,000 consumer complaints also will be processed.

- Death Certificates. Death certificates are used by CPSC staff to identify hazards for possible product recalls, voluntary standards initiatives, regulatory development, and consumer education. In FY 1985, approximately 15,000 death certificates covering consumer product-related deaths were collected from the 50 States and the District of Columbia. During FY 1986, approximately the same number will be collected.

- MECAP. During FY 1985, the medical examiners and coroners alert program (MECAP) received over 400 reports on product-related deaths from cooperating coroners and medical examiners through a voluntary telephone reporting system. Many of these reports were selected for follow-up investigation to learn more about product involvement in these accidents. The Commission is exploring several methods to increase the number of reports received through this program. One effort has been to contract with State medical examiners on a pilot basis to report every product-related death in their States. A separate effort has been implemented to have CPSC regional office staff visit nearby coroners and medical examiners whenever time is available. The purpose of these visits is to encourage reporting and to define the kinds of reports that are most useful to CPSC. In FY 1986, the Commission expects to receive more than 500 reports.

- Special Studies. When data needs arise that cannot be met by CPSC's ongoing data and information systems, special studies are designed to meet these requirements using probability surveys, panel studies, or other data-gathering techniques. Special studies conducted in FY 1985 included: (1) a portable electrical-heater-use survey; (2) an electrical survey on ground fault circuit interrupter (GFCI) use; and (3) a natural and liquid propane gas-user survey. Special studies scheduled in FY 1986 include: (1) an analysis of the portable electrical-heater-use survey data; (2) an analysis of the GFCI-user survey data; (3) an analysis of the gas appliance-user survey data; and (4) the design of a survey to collect data on problems identified during 1986.

- Interagency Agreements (IAG's) for Data-Sharing. In FY 1985, the Commission received $380,000 from interagency agreements for data-sharing with the National Institute for Occupational Safety and Health, the Environmental Protection Agency, and the Food and Drug Administration. These interagency agreements have significantly defrayed much of the fixed costs associated with the National Electronic Injury Surveillance System, provided these other agencies with relatively inexpensive data, and reduced the overall duplication of data-collection by sister agencies at the Federal level. A FY 1986 renewal of these IAG's is expected.

o Injury Data Analysis. In FY 1985, the Directorate for Epidemiology prepared approximately 50 hazard analysis reports. Examples include electrical cooking equipment, cigarette-ignited fires, wearing apparel, baseball and softball (children 5 to 14 years old), and flexible gas connectors. The directorate also completed revisions of its guidelines for in-depth investigations, which will further improve the quality of injury investigations performed by the agency staff. In FY 1986, the Directorate for Epidemiology will continue to provide analyses of product-related deaths and injuries.

o Data-Dissemination. Besides collecting data, the Commission provides the public with injury data through its National Injury Information Clearinghouse.

- Reports to Manufacturers. In accordance with section 6 of the Consumer Product Safety Act and Commission policy, the agency's Clearinghouse provided reports of about 6,000 product-related incidents to manufacturers in FY 1985. This included both consumer complaints and accident investigation reports. In FY 1986, approximately 7,000 reports are to be provided to manufacturers.

- Freedom of Information Act (FOIA) Requests. In FY 1985, the Clearinghouse, working with the Office of the Secretary, answered approximately 6,000 FOIA requests for injury data from the public. Adherence to the 10-day FOIA time requirement for preparation of responses by the Clearinghouse was met, for the most part, at the current staff level, with a few exceptions for large requests. In FY 1986, it is estimated the number of requests and responses will drop to a level of approximately 5,000 injury data requests, which reflects the more usual experience of past years.

- Complaint Confirmation. In FY 1985, the Clearinghouse continued a process of sending copies of reported incidents or potential incidents to consumers for confirmation of information. Approximately 5,000 complaints were mailed during FY 1985. Approximately 75 percent of these were confirmed. It is estimated that the number of complaints will remain fairly stable in FY 1986.

o Automated Data Processing (ADP) Support. The Commission continues to rely heavily on ADP support for the various injury data bases, including NEISS, death certificates, consumer complaints, newspaper clips and in-depth investigations. ADP services include data-collection, storage and processing, and the generation of a wide variety of statistics and reports used in Commission decision-making.

Economic Analysis

o Economic Support. Most of the resources of the Directorate for Economic Analysis are located in the hazard programs, where they provide the economic information necessary to make decisions concerning the best options to reduce unreasonable risks of injury associated with consumer products. The Consumer Product Safety Amendments of 1981 reinforce the need for economic analysis to be performed before any regulatory decisions are made. Resources for both management of the Directorate and special economic studies are provided in this program.

- Product Life and Use Estimates. In FY 1985, the Directorate for Economic Analysis developed over 300 product life and use estimates for use in calculating estimates of recall effectiveness and consumer exposure to product hazards. A comparable number will be prepared in FY 1986.

- Injury-Cost Projections. In FY 1985, the Directorate for Economic Analysis developed approximately 70 injury cost projections that were used to weigh the economic impact of Commission or other actions. The Occupational Safety and Health Administration and the National Institute for Occupational Safety and Health were the principal users of injury cost reports outside the Commission. During FY 1985, new computer programs were installed to generate injury costs for the annual report and to estimate injury costs for medically attended injuries. In FY 1986, a major revision and updating of the injury cost model will be completed.

- Product Ingredient Data Base. During FY 1985, the Directorate continued maintenance and updating of the product-ingredient data base (CHIP II) that incorporates information from several data bases into a new format designed for Commission use. CHIP II supports analysis of issues involving consumer exposure to toxic chemicals. In FY 1986, the information in this data base will be refined and updated.

Proposed FY 1987 Activities

To provide injury data and economic analysis support for its hazard programs, the Commission seeks 31 work years and $3,201,000.

Hazard Analysis

o Injury Data Collection. To obtain an accurate estimate of the number and different types of injuries caused by consumer products, the Commission will continue to collect information from a variety of sources in FY 1987.

- Data-Collection Initiatives. In FY 1987, the Commission will continue to develop promising data sources identified in previous years and evaluate potential new sources as they are identified.

- NEISS. In FY 1987, the Commission will continue to collect injury data from the NEISS hospitals. Follow-up investigations will be performed on a specific sample of the NEISS cases.

- Investigations. The Commission will continue to conduct on-site and telephone investigations in response to news clips and consumer complaints.

- Death Certificates. In FY 1987, approximately 15,000 death certificates covering consumer product-related deaths from the 50 states and the District of Columbia will be collected.

- MECAP. In FY 1987, the Commission will continue to provide coroners and medical examiners with access to a toll-free number by which to report product-related deaths to CPSC. This voluntary reporting system will continue to provide a low-cost avenue for fast reporting of life-threatening hazards by informed professionals. Approximately 600 reports are anticipated in FY 1987.

- Special Studies. Data needs that cannot be met by ongoing data and information systems require CPSC to design special studies using probability surveys, panel studies, or other data-gathering techniques. In FY 1987, the Commission will continue special study efforts to meet unique data needs.

- Interagency Agreements for Data-Sharing. In FY 1987, CPSC will attempt to renew existing interagency agreements for use of NEISS-related data.

o Automated Data Processing (ADP) Support. The Commission will continue to rely heavily on ADP support for the various injury data bases, including NEISS, death certificates, consumer complaints, newspaper clips, and in-depth investigations.

o **Injury Data Analysis**. The Directorate for Epidemiology will continue to support work in the hazard programs by analyzing injury patterns associated with certain products. Ongoing statistical support will be provided and hazard analyses will be conducted on such products as pools and spas, extension cords, electrocution hazards, riding mowers, and ATV's.

o **Data Dissemination**. The Commission will continue to disseminate injury data to the public through its National Injury Information Clearinghouse.

- **Reports to Manufacturers**. In accordance with section 6 of the Consumer Product Safety Act and Commission policy, the Clearinghouse will provide approximately 7,000 consumer complaints, incidents and accident-investigation reports it has received to manufacturers in FY 1987.

- **Freedom of Information Act (FOIA) Requests**. It is expected that the Clearinghouse will receive and respond to approximately 5,000 requests for injury data under the FOIA in FY 1987.

- **Complaint Confirmation**. The Clearinghouse will continue to send copies of reported incidents or potential incidents to consumers for confirmation of information. It is expected that the agency will send approximately 5,000 such complaints in FY 1987.

Economic Analysis

o **Economic Support**. In FY 1987, the Directorate for Economic Analysis will continue to provide support services to various projects under the hazard programs. The support will include economic impact studies, regulatory flexibility analyses, approximately 70 injury cost reports, and over 300 product life and use estimate reports. Both the Commission's and other agencies' activities concerning hazards will be supported by injury cost data. The product-ingredient data base (CHIP II) will continue to support analysis of issues that involve consumer exposure to toxic chemicals in consumer products.

II. PRODUCT SAFETY AND ENFORCEMENT
C. Ongoing Headquarters Activities
2. Engineering and Sciences Program
(Funds in Thousands of Dollars)

FY 1985 (Actual)		FY 1986 (Estimate)		FY 1987 (Estimate)		Difference (1986-1987)	
FTE	Funds	FTE	Funds	FTE	Funds	FTE	Funds
12	$941	16	$1,167	15	$1,046	-1	-$121

Program Description

The goal of the engineering and sciences program is to provide technical expertise and support to the Commission's hazard programs. The work of the program is performed by two directorates: Engineering Sciences and Health Sciences. Resources for both directorates also exist in hazard and other support programs.

In providing expertise to the Commission in both engineering and physical sciences, the Directorate for Engineering Sciences has several objectives:

- to participate in cooperative programs with industry to improve product safety;
- to perform technical and human factors analyses and engineering investigations of products to determine if they present significant risks to consumers;
- to develop test methods to measure the safety of consumer products as well as evaluate test methods developed by others;
- to conduct tests on specific consumer products to determine compliance with mandatory or voluntary standards; and

- to assure the technical accuracy of Commission decision making and its information and education programs.

In providing biological, toxicological, medical, and chemical support for the Commission, the Directorate for Health Sciences also has several objectives:

- to collect and evaluate toxicity data;
- to provide exposure assessments and risk assessments for chemicals of concern to the Commission;
- to develop test methods to measure the safety of consumer products as well as evaluate test methods developed by others; and
- to conduct tests on specific consumer products to determine compliance with mandatory or voluntary standards.

The objectives of both directorates are met through the work of CPSC office and laboratory personnel. The Engineering and Health Sciences staffs also call on the expertise of other Federal agencies when appropriate. For example, Commission engineers work closely with the National Bureau of Standards on Commission projects such as upholstered furniture, and with the Environmental Protection Agency and Department of Energy on projects such as gas heating systems and indoor air quality. In addition, the Directorate for Health Sciences coordinates CPSC activities with other Federal regulatory and research agencies, including the Department of Health and Human Services' National Toxicology Program, as well as the Office of Science and Technology Policy in the Executive Office of the President, in order to share information and avoid duplication of work.

FY 1985 and FY 1986 Activities

Engineering Sciences

- Engineering Support. In FY 1985, the Directorate for Engineering Sciences provided management and quality control for the engineering resources that support the hazard programs, compliance and enforcement work, and consumer information activities, and will continue to do so in FY 1986. These engineering resources fulfilled numerous functions:

- staff members with widely divergent areas of expertise served on 35 panels that wrote model codes and voluntary standards for improved safety of consumer products. CPSC's engineers and scientists worked with their counterparts from the private sector to achieve a reasonable balance between safety and cost;

- engineers tested and conducted safety assessments for more than 500 different products in FY 1985; and

- engineers and scientists often directly assisted consumers by responding to inquiries for technical assistance and preparing numerous safety criteria for consumer guides and checklists.

o Human Factors. In FY 1985, over 60 human factors analyses and reports were completed. Of these about 50 were in support of the emerging hazard program and compliance projects. A large number of these analyses involved products intended for children's use. In FY 1986, the human factors staff will continue to provide analyses to support Commission work.

o Laboratory Support. In FY 1985, CPSC's engineering laboratory performed in-house tests in a full range of engineering areas including: thermal (fire and flammability), mechanical and electrical equipment, outdoor power equipment, all-terrain vehicles, home electrical appliances, wood stoves and chimneys, and home furnishings. These tests were in support of compliance actions, product investigations, voluntary stnadards activities, and information efforts. Activities in other directorates also were supported, including indoor-air-quality projects and follow-ups to in-depth investigations. Laboratory support projects provide all instrumentation, calibration and fixture development for day-to-day laboratory operations. This laboratory support provides vital resources for consumer visits, industry tours and special exhibits for Commission meetings. This support will continue in FY 1986.

o Interagency Cooperation. The Directorate for Engineering Sciences continues its close cooperation with the National Bureau of Standards, the Department of Energy, other Federal agencies, and State screening programs to avoid duplication of effort.

Health Sciences

o Laboratory Facilities. In FY 1985 and FY 1986, the Commission shared and will continue to share facilities, equipment and expertise with the Food and Drug Administration as part of its efforts to reduce laboratory costs.

- Toxicity Support. In FY 1985, the Directorate for Health Sciences collected and evaluated toxicity data on several hundred chemicals and chemical classes for a number of the Commission's hazard programs, including support for the Commission's Toxicological Advisory Board. The directorate collected poison information from several data bases and administered the CPSC contract for pathology services. Toxicity data-collection and evaluation will continue at approximately the same level in FY 1986, with attention being focused on pollutants in indoor air, pyrolysis products, strong sensitizers, chlorinated hydrocarbons, fire retardants, biocides and various chemicals in household products.

- Exposure and Risk-Assessment. In FY 1985, the Directorate for Health Sciences evaluated human exposure to indoor air pollutants, nitrosamines, phthalates, methylene chloride and formaldehyde from pressed wood products. In addition, by use of computerized models for risk-estimation, the Commission was able to perform risk assessments for consumer exposure to chemicals of concern such as asbestos, methylene chloride, formaldehyde, and phthalates. In FY 1986, such assessments will continue to be refined for methylene chloride, perchloroethylene, formaldehyde in pressed wood products, and other chemicals, as needed.

- Biological and Toxicological Support. In FY 1985, the Directorate for Health Sciences provided extensive support services to various Commission hazard programs and compliance activities. In FY 1986, the directorate will continue to provide these services.

- Mast-Cell Test. In FY 1985, the Directorate for Health Sciences continued work to develop a preliminary methodology to evaluate the use of cell cultures for initial screening for eye irritation testing.

Proposed FY 1987 Activities

The Commission requests 15 work years and $1,046,000 for this program in FY 1987.

Engineering Sciences

- Engineering Support. The Directorate for Engineering Sciences will provide management and quality control of the engineering resources that support the hazard programs, compliance and enforcement work, and consumer information activities. Smarter, more sophisticated products and new materials and technologies will continue to require CPSC's engineering knowledge, judgment, and practical experience to provide input to developers of voluntary safety standards and codes. Rigorous testing and product safety evalutions will be effectively utilized to formulate strategies for preventing unsafe products from injuring consumers. Engineers and scientists from CPSC will continue to communicate and directly assist consumers to solve their safety problems.

o Human Factors Analysis. The human factors staff will continue to support the hazard programs by analyzing accident scenarios associated with consumer products and the human involvement in accidents. Human factor analyses are planned for such products as ATV's, riding mowers, child drownings, gas appliances, electrocution hazards, and structural entrapment.

o Laboratory Support. In FY 1987, the CPSC engineering laboratory will continue to provide in-house services and testing in support of engineering, health sciences, and compliance projects.

o Interagency Cooperation. The Engineering Directorate will continue its close cooperation with the National Bureau of Standards, the Department of Energy, other Federal agencies, and State screening programs.

Health Sciences

o Laboratory Support. In FY 1987, the laboratory will continue to provide in-house test results and evaluations of hazards posed by consumer products in support of Commission hazard programs and compliance activity.

o Toxicity Support. In FY 1987, the Directorate will continue data collection and evaluation activities, with attention being focused on pollutants in indoor air, pyrolysis products, strong sensitizers, chlorinated hydrocarbons, fire retardants, glycol ethers and various other chemicals in household products.

o Exposure and Risk Assessment. Through use of state-of-the-art techniques, the Directorate will evaluate consumer exposure and risk from the use of consumer products which contain hazardous chemicals. In FY 1987 these will include products containing glycol ethers, methylene chloride, paradichlorobenzene and perchloroethylene.

o Interagency Coordination. The Directorate for Health Sciences will continue its close cooperation with the National Toxicology Program, the Department of Health and Human Services, the Department of Energy, the Environmental Protection Agency, the National Bureau of Standards and other agencies in areas of mutual interest through multiple working groups to avoid duplication and assure that our resources are utilized in the most effective manner.

II. PRODUCT SAFETY AND ENFORCEMENT
C. Ongoing Headquarters Activities
3. Information and Education
(Funds in Thousands of Dollars)

FY 1985 (Actual)		FY 1986 (Estimate)		FY 1987 (Estimate)		Difference (1986-1987)	
FTE	Funds	FTE	Funds	FTE	Funds	FTE	Funds
19	$1,734	20	$1,960	17	$1,815	-3	-$145

Program Description

The goals of the information and education program are to increase consumer awareness of product hazards and safe-use practices and to assist consumers in evaluating the comparative safety of consumer products. The information and education program supports the priority projects and regulatory work of CPSC by producing safety alerts covering product recalls, through the preparation of product safety updates disseminated to weekly newspapers, syndicated columnists, and action line editors on products of consumer concern, by developing and distributing publications, by encouraging support from the media, business, industry, State and local governments, and consumer-oriented organizations, and by responding to thousands of inquiries about product safety standards and Commission actions. Most of the information and education program's resources are devoted to these basic information-dissemination systems, which respond to the informational needs of CPSC and to the demands of the public for information about seasonal product safety issues (such as holiday safety, National Poison Prevention Week, and fireworks).

In addition, the Commission conducts several ongoing information efforts each year, addressing product safety topics which consumers ask about and which follow up on regulatory work by CPSC from previous years. These topics include: smoke detectors, chain saws, electrical safety, fire safety, children's product safety, safety for older consumers, and safety curriculum materials for schools. The Commission prints and distributes publications and responds to consumer and media requests for information in these ongoing areas. The Commission works collaboratively with national, State and local organizations, industry, and consumer groups on several of these projects. At relatively little cost to the taxpayer, these collaborative efforts inform the public and promote safety awareness.

FY 1985 and FY 1986 Activities

o Home Heating Appliances. The Commission provided information to consumers in FY 1985 about potential hazards associated with coal and wood stoves, kerosene heaters, gas heating systems, and electrical heaters. This was accomplished through collaborative efforts with State and local governmental organizations, businesses, and industries. During the FY 1986 heating season, CPSC will continue to provide consumers with information about supplemental home heating equipment.

o Poison Prevention. The Commission continued to support National Poison Prevention Week by serving as the secretariat of the 33-member Poison Prevention Week Council. In 1985, the theme focused on the need for grandparents to keep their medicines out of the reach of grandchildren. In 1986, CPSC will help coordinate a poison prevention conference and ceremony to commemorate the 25th observance of National Poison Prevention Week.

o Hotline and Correspondence. Thousands of consumers call and write to CPSC every year. These inquiries need to be answered with timely, accurate information. Many of the calls and letters provide data about injuries and potentially hazardous products, which prove useful to other units of CPSC. The annual number of calls to the hotline in FY 1985 was approximately 100,000. It is anticipated that the Commission will respond to at least this many inquiries in FY 1986.

o Ongoing and Seasonal Issues. Without initiating campaigns on these topics, CPSC receives regular consumer demands for information on several ongoing product safety issues and seasonal hazards, including:

- children's toys and holiday safety;
- schools requesting product safety information;
- National Poison Prevention Week;
- fireworks and other fire safety information (including smoke detectors);
- power equipment (including chain saws);
- electrical safety; and
- safety for older consumers.

In order to meet these demands, publications on these and other products were updated and printed during FY 1985. Over 3,000,000 pieces of material were distributed. In FY 1986, CPSC will continue to respond to consumer requests for materials on ongoing and seasonal issues, with heavy emphasis on products used in the home environment of children.

o National Conference on Pool and Spa Safety. In May 1985, the Commission and the National Spa and Pool Institute jointly sponsored a national conference on pool and spa safety. Over 125 attendees heard experts from the medical profession, industry, government, professional associations, foundations, and others describe the problems associated with diving and drownings and give suggestions for correcting the problems. Two workshops were held from which came recommendations for follow-up activities. A steering committee was appointed to follow through on appropriate and feasible recommended actions. In FY 1986, four subcommittees will be formed to address the following subjects: information clearinghouse, research, data-collection, and technical work.

o Electrical Safety. The national electrical safety awareness information program was launched in May 1985. This year-long program has the support of industry associations. Consumer awareness of home electrical hazards and suggested ways of correcting those hazards are the themes of this program. It will continue as an ongoing program in FY 1986.

o Safety for Older Consumers. In FY 1985, the Commission distributed the "Home Safety Checklist for Older Consumers" through a national network of area agencies on aging and other organizations. Purchase orders were written to 34 State and local agencies to conduct seminars and training sessions for older consumers to learn how to use the checklist. The U.S. Department of Health and Human Services reprinted and distributed a large quantity of the checklist, and the U.S. Department of Treasury encouraged older consumers to obtain copies of the checklist from local agencies on aging. A national conference on safety for older consumers was held in cooperation with the American Society of Testing and Materials and 25 honorary co-sponsors to explore ideas for voluntary standards that could improve safety for older people. Many recommendations from the national conference will be pursued in FY 1986, including voluntary standards in areas such as falls, burns, and electrocutions. Information about these standards will be disseminated to older consumers by the Commission.

o Chain Saws. With the completion of the industry's voluntary standards effort on low-kick saw chains in FY 1985, there is more need than ever to motivate owners of older model chain saws to equip their machines with the low-kick chain. Virtually all new chain saws now come equipped with the new low-kick chain. Therefore, future kickback-related injuries will occur on older model chain saws not equipped with the low-kick chain. CPSC and industry will continue to collaborate on ways to provide information to consumers in FY 1986.

o **Nursery Equipment**. Since CPSC last conducted a program on infant products in FY 1982, several new hazards have come to the Commission's attention and have been addressed through recent changes in voluntary and mandatory standards. As an FY 1985 priority project, the Commission conducted an outreach campaign targeting new and expectant parents and caretakers of young children with information to help them select new equipment which meets current safety standards and to use it properly. The program encouraged parents to "retrofit" older or used equipment to eliminate potential hazards, or to discard equipment when beyond retrofitting. The Commission received a high level of interest from consumers in FY 1985, and will continue the program in FY 1986 because of interest resulting from materials and public service announcements that were released in the latter part of FY 1985. Some State and local community efforts begun in FY 1985 will continue in FY 1986.

o **Additional Outreach Efforts**. Information program resources are devoted to other basic information-dissemination needs of the Commission such as:

- **Recalls and Alerts**. Graphics, photographs, and typeset copy are produced for product recalls and warnings which the Commission issues, thus helping improve recall effectiveness.

- **Spotmaster**. Spotmaster tapes on current consumer product safety issues are recorded for radio stations to use in local news programming.

Proposed FY 1987 Activities

The Commission requests 17 work years and $1,815,000 for this program in FY 1987.

In FY 1987, the Commission will concentrate its resources on conducting information and education priority programs focusing on child drownings, safety for older consumers, and all-terrain vehicles (ATVs); conducting ongoing and seasonal programs; responding to telephone calls and letters from consumers; supporting compliance with section 15 of the Consumer Product Safety Act (CPSA) through seminars; participating on hazard program teams; preparing recalls and alerts, and updating consumer informational publications.

o **Safety for Older Consumers**. The Commission will follow up on recommendations from the National Conference on Safety for Older Consumers by participating in voluntary standards activities to address products of particular concern to older people. State and local agencies on aging will be encouraged to conduct seminars for older people to train them to use the "Home Safety Checklist." Based on findings of a study by the Centers for Disease Control, new product hazards and accident patterns will be addressed in CPSC's publications and will be distributed to older people through a national network of business, media, and groups serving older consumers.

- Other Priorities: Child Drownings and ATVs. Information campaigns will be components in these Commission priorities. Materials will be developed and distributed to warn consumers about hazards with swimming pools. Use of protective equipment will be encouraged for riders of ATVs.

- Ongoing Efforts. Each year, consumers request information about many ongoing topics. To the extent possible, the Commission will place emphasis on responding to requests for information on toy safety, fire safety (including smoke detectors), electrical safety, chain saws and children's nursery products. Many schools also request consultation and information about incorporating consumer product safety content into their curricula. Safety alerts on recalled products and standards will be developed and/or updated.

- Seasonal Efforts. Seasonal programs include disseminating information on holiday safety, home heating appliances, and poison prevention. Existing materials will be updated, and support publications will be prepared as needed.

- Responding to Consumer Inquiries. The Commission will respond to the thousands of consumers who call and/or write to the Commission requesting information and who provide the Commission with data about injuries and/or potentially hazardous products.

- Participation on Hazard Program Teams. Many hazard program team projects contain an information component or result in outreach activities. The information and education staff will participate on hazard program teams to keep abreast of project activities and projects that may have an impact on outreach activities. When appropriate, outreach activities will be initiated to support hazard project activities.

- Preparation of Recalls and Alerts. The Commission will provide the public with information about product recalls and alerts about emerging hazards. Each alert or recall will be made available to action line reporters, labor union editors, and others.

- Industry Information Supporting Compliance with Section 15. To increase industry reporting under section 15 of the Consumer Product Safety Act, the Commission will focus on small businesses that may not be reached by mailings to national groups and associations or by CPSC appearances at conventions. Information about reporting requirements under section 15 will be disseminated and businesses will be encouraged to report because of the resulting benefits.

II. PRODUCT SAFETY AND ENFORCEMENT
C. Ongoing Headquarters Activities
4. Compliance and Enforcement
(Funds in Thousands of Dollars)

FY 1985 (Actual)		FY 1986 (Estimate)		FY 1987 (Estimate)		Difference (1986-1987)	
FTE	Funds	FTE	Funds	FTE	Funds	FTE	Funds
47	$2,955	47	$2,930	47	$2,935	--	+$5

Program Description

The goal of the Commission's compliance and enforcement program is to assist in the creation of a safer marketplace by ensuring that firms comply with the laws, regulations, and standards that protect consumers from hazardous products. The agency attempts to achieve this goal by accomplishing three objectives:

- o providing surveillance of consumer products offered in the marketplace;
- o working cooperatively with industry in obtaining compliance with CPSC rules and regulations; and
- o removing hazardous products from the marketplace and consumers.

These objectives are met through the following methods:

o Product Defect-Correction Activities. The Commission has the authority to remove hazardous products from the marketplace under section 15 of the Consumer Product Safety Act (CPSA). Further, section 15 requires manufacturers, distributors and retailers to report potentially hazardous products to the Commission. The outcome of both of these activities is usually the quick, inexpensive and minimally disruptive voluntary removal of hazardous products from the marketplace.

Since FY 1973, the Commission's use of section 15 has resulted in the initiation of over 1,400 recalls or other corrective actions involving over 210 million products.

o Surveillance. The Commission's surveillance program covering regulated products has four major components: (1) planning enforcement strategies as part of the regulatory development process, which include notifying, educating and working with the affected industry prior to the effective date of a regulation; (2) conducting intensive compliance activities when a new regulation goes into effect and shifting to a maintenance level once acceptable compliance is achieved; (3) managing regional office case development activities; and (4) cooperating with State and local authorities.

o Enforcement Actions and Litigation. As part of the program to encourage voluntary compliance with CPSC regulations, the Commission works with industry through such informal means as letters of advice, notices of non-compliance, and meetings. The staff also negotiates voluntary corrective action plans with firms to remove hazardous products from the market that fail to comply with agency standards and regulations. Likewise, the staff is able to negotiate voluntary corrective actions for most defective products which may present substantial product hazards. These informal and relatively inexpensive methods work best in combination with an effective, targeted enforcement program. When voluntary negotiations are not successful, the Commission decides whether to seek product recall or other statutory relief in an administrative forum. The Commission's Office of the General Counsel considers the appropriateness of Federal court actions such as product seizures and injunctions. In some cases, the Commission may consider criminal prosecution. In addition, the Commission may bring civil actions seeking civil penalties.

FY 1985 and FY 1986 Activities

o Section 15 Program. During FY 1985, the Commission continued efforts to improve the process of identifying products which could present substantial product hazards, improve the reporting of such hazards by companies, as required by section 15(b) of the CPSA, and improve the effectiveness of recalls and other corrective actions. The number of section 15(b) reports have increased dramatically: 177 reports were received during FY 1985, compared with 128 during all of the previous fiscal year. This increase may be attributable to (1) the policy statement issued by the Commission in FY 1984; (2) a brochure on reporting and a retailer guide, which were published by the Commission and widely disseminated in FY 1985; (3) increased Commission investigation of incidents that companies have not reported; (4) civil penalty settlements and cases litigated; and (5) several conferences heavily attended by retailers, manufacturers and distributors at which the section 15(b) reporting requirements were discussed. In FY 1986, the Commission will continue using various vehicles, such as holding industry seminars and working with trade associations, to inform the industry of its responsibility to report under section 15(b). Also in FY 1986, the staff will conduct timeliness investigations to emphasize the Commission's concern regarding reporting, regional office skills will be further developed to conduct section 15 investigations, and efforts will be made to work with States via contracts to obtain their assistance in incident investigations and defective-product identification.

o Recall Activities. The Commission continued its efforts to improve the efficiency and effectiveness of recalls and other product corrections. Major recalls announced during FY 1985 have included bicycles, gas control valves, lawn and garden equipment, electric fans, electric pressure washers, cribs and a variety of children's products. During FY 1985, CPSC initiated 82 recalls of regulated products. In addition, the agency opened 100 files covering products which may present a substantial product hazard. The products involved either are being recalled or are the subject of current negotiations with the responsible firms as to an acceptable corrective action plan.

o Litigation Involving Children's Products. During FY 1985, the Commission's Directorate for Compliance pursued administrative litigation against 9 manufacturers of mesh-sided cribs and playpens that collectively have been involved in suffocation deaths of 15 infants who were left in cribs with the sides in the down position. As part of that litigation the manufacturers agreed to conduct a far-reaching campaign to warn parents of this hazard. Also during FY 1985, Commission staff were engaged in litigation to obtain corrective action for expandable wooden enclosures for children that have been involved in 3 deaths due to strangulation. In FY 1986, the implementation of the corrective action plan involving mesh-sided cribs and playpens will be carried out by the firms.

o Combination Gas Controls. Identifying and securing the recall or correction of potentially hazardous combination gas controls continued to be a high priority in FY 1985 because of the demonstrated potential for serious fire and explosion incidents if these controls malfunction. The staff continued monitoring 4 major recalls of combination gas controls. During FY 1984, the staff litigated two administrative cases with Honeywell, Inc. to obtain corrective action for Honeywell valves (models 8280 and 5130) used for gas furnaces and water heaters. This litigation resulted in a settlement announced in January 1985. Honeywell agreed to initiate corrective action for these valves and agreed to pay a civil penalty of $800,000 to settle allegations that the firm failed to report potential safety problems associated with these types of gas valves. The $800,000 civil penalty represents the largest civil penalty settlement involving a single manufacturer in the Commission's history. Collectively, the gas valves involved in the 6 corrective actions currently underway have been involved in explosions and fires resulting in 82 deaths and 218 serious injuries. In FY 1986, the corrective action will be fully implemented by Honeywell and monitored by the Commission staff.

o **Baby Gates**. During FY 1985, the Commission reached agreement with 6 manufacturers of accordion-style baby gates to voluntarily halt further product and distribution. The Commission staff believes that these gates, which are commonly used to block entry of infants and children to stairs and rooms in a home, present a strangulation hazard in the v-shapes along the top of the gate and in the diamond-shaped openings in the body of the gate. The Commission is aware of 8 deaths involving this style of baby gate. The manufacturers are now marketing only newer, safer designs of baby gates.

o **Monitoring Existing Regulations**. Investigations of products which fail to comply with performance standards or labeling requirements resulted in the identification of 246 cases of noncompliance and the initiation of 82 recall actions in FY 1985. These recalls involved a variety of products, including refuse bins, baby rattles, pacifiers, cribs, toys bearing small parts or sharp edges and points, toys bearing lead paint, clothing, household chemicals, and lawn mowers. A comparable level of activity is planned in FY 1986.

o **Poison Prevention Packaging Act (PPPA)**. Enforcement under the household chemical program revealed that many child-resistant closure packaging manufacturers and most users of this type of packaging have very limited quality control procedures in place. As a consequence of the lax controls, an increasing number of child-resistent packaging problems have surfaced. Investigations in FY 1984 showed that problems are more likely to develop when different manufacturers supply components of a package. In FY 1985, a portion of this program was directed toward examining the control procedures of component manufacturers and users and educating them in the use of quality control procedures to assure that the complete packaging system complies with PPPA standards. In FY 1986, efforts will be made to obtain more State involvement in enforcement of the PPPA standards through the use of memoranda of understanding and Commission contracts with States.

o **Toys and Children's Articles**. Because of a high noncompliance rate, the Commission continues to vigorously follow-up on consumer and trade complaints involving toys and children's articles. Products covered included pacifiers, baby rattles, and various toys which failed the small parts regulation or were painted with lead-based paint. A number of toys with hazardous sharp edges and sharp points were also identified. Distribution of these noncomplying toys has ceased, and those which present a serious hazard are being recalled. The majority of noncomplying toys were imported, and CPSC is notifying foreign manufacturers directly of their noncompliance, as well as of the existence and nature of safety requirements. Commission activity in this area will continue in FY 1986.

o **Wood-Burning Stoves**. In FY 1985, the Commission's staff concluded the review of labeling and instruction manuals from every known manufacturer and importer of wood-burning stoves to assure compliance with the Commission standard. In addition, follow-up was made on all significant violations. In FY 1986, the Commission will continue to identify previously unknown manufacturers and importers so that their labeling and instruction manuals can be evaluated for compliance with the regulations. Appropriate follow-up will be initiated where noncompliance is noted.

o **Voluntary Toy Chest Standard**. Every known manufacturer and importer of toy chests has been inspected, and by the end of FY 1985, at least one toy chest from each manufacturer was tested to assure conformance with the voluntary standard. Targeted inspections of toy chest manufacturers producing suspected nonconforming chests will be made in FY 1986.

o **Amended Mattress Standard**. Approximately one-third of the known mattress manufacturers were inspected in FY 1985 to verify compliance. Industry seminars were held in cooperation with the National Association of Bedding Manufacturers to facilitate a smooth transition from the original mattress standard to the amended standard, which took effect in FY 1985 and requires less production recordkeeping and testing. In FY 1986, approximately 15 percent of the remaining mattress manufacturers will be evaluated for compliance with the amended standard.

o **Baby Cribs**. Because of the high rate of noncompliance among importers and small domestic manufacturers of baby cribs, the Commission reinspected previously noncomplying firms as well as new crib importers and manufacturers in FY 1985. More than 20 crib importers and manufacturers have been inspected. Over half of them were found to be distributing cribs which violated one or more of the requirements. Several cribs which violated the lead-in-paint requirements were also identified. Distribution of these noncomplying cribs by these firms has ceased. The majority of the firms not in compliance were importers. In FY 1986, the Commission will continue to inspect other domestic manufacturers and importers suspected of distributing noncomplying goods.

o **Voluntary Standards**. In FY 1985, the Commission's staff conducted field monitoring programs on vented gas-fired space heaters and kerosene heaters. An evaluation of these results will be made in early FY 1986. In FY 1986, the staff will evaluate industry conformance to the voluntary standards on upholstered furniture, chain saws, crib finials, and toys.

o **Blade Contact**. The blade contact activites for FY 1985 revealed substantial compliance with the standard. Although no specific FY 1986 action is planned in this area, if information is received by the Commission indicating a potential problem, appropriate follow-up will be initiated.

o Bicycle Enforcement. The FY 1985 program revealed that the problem of fork and frame breakage during the expected use of the product was not being predicted in testing against the current standard. In FY 1986, activities will be targeted to firms against which trade and consumer complaints have been received by the Commission.

Proposed FY 1987 Activities.

The Commission requests 47 work years and $2,935,000 for this program in FY 1987.

o Section 15 Activities. The agency will continue to place major emphasis on its program to identify products which present substantial product hazards and to assure that these products are recalled or otherwise corrected. Previous efforts to increase the reporting rate, improve the investigations to identify unreported hazards and improve the effectiveness of recalls will be continued. The staff will continue to examine new products for defects which may present substantial product hazards.

o State and Federal Cooperation. The Commission will continue to cooperate and work with other State and Federal agencies to achieve more effective consumer protection, to minimize duplication of effort, and to exchange information and ideas. This will include planning and attending conferences, workshops, task forces, work-sharing agreements and purchasing cost-effective investigations, inspections, sample collections, and product recall checks from State agencies.

o Toys and Children's Articles. Because of a high rate of noncompliance, the Commission will continue to follow up on injury reports of consumer and trade complaints involving toys and children's articles. Products expected to be covered include pacifiers, electric toys, rattles, toys painted with lead-based paint, and toys that fail the small-parts or sharp-points-and-edges regulations.

o Monitoring the Flammable Fabrics Act (FFA) Regulations. To maintain the high rate of compliance with the FFA regulations, the Commission will continue to follow up on consumer and trade complaints of violations. Firms that appear to be noncomplying will be inspected and sampled to achieve compliance.

o Monitoring Fireworks Regulations. A significant number of injuries occur each year from the use of fireworks. Because approximately 20 percent of injuries involve fireworks that fail to comply with the regulations, there will continue to be surveillance of importers, distributors and retailers. The Commission will also continue its cooperation with the U.S. Customs Service, the Department of Transportation, and the Bureau of Alcohol, Tobacco and Firearms to curtail the unlawful sale of banned fireworks.

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o **Monitoring the Architectural Glazing Standards.** The Commission's surveillance activity since the standards (covering doors, storm doors, patio doors, and bathtub and shower doors and enclosures) became effective in 1977 has covered a very small percentage of firms at the fabricator-manufacturer, fabricator-installer and fabricator-retailer level. Inspections will be made of a small number of these firms, and samples will be collected when violations are found.

o **Monitoring the Refuse Bin Ban.** Field observations indicate the continuing need to have at least a minimum level of surveillance activity to correct remaining noncomplying refuse bins currently in use in public areas. Follow-ups will be made on consumer and trade complaints and on reports of injuries or noncompliance.

o **Monitoring the Upholstered Furniture Voluntary Standard.** The Commission has worked with the Upholstered Furniture Action Council since 1981 to develop a voluntary program to improve the cigarette ignition-resistance of upholstered furniture. Inspections will be made of approximately 15 percent of the firms involved to monitor industry compliance with the voluntary standard and to evaluate the effectiveness of the voluntary program.

o **Monitoring Voluntary Standards for Strollers, Hook-On-Chairs, and Baby Walkers.** It is anticipated that voluntary standards for strollers, hook-on-chairs, and baby walkers will go into effect FY 1987. Programs to evaluate conformance with these voluntary standards will be conducted.

o **Monitoring Baby Crib Mandatory and Voluntary Standards.** Because of the continuing noncompliance with CPSC mandatory standards, the Commission will continue to follow up on trade and consumer complaints involving baby cribs. The staff will continue to identify previously unknown importers and manufacturers of cribs for inspection and sample testing. Conformance to the voluntary standard requirements regarding entanglement and strangulation will also be evaluated.

o **Mattress Enforcement Program.** The FY 1985 mattress enforcement program revealed that many firms have not established the records required by the original mattress standard and continued under the amended standard. These records, plus certain additional records required by the amended standard, are needed to stimulate a high level of quality control, which in turn should maintain a high level of compliance with the standard. Inspections will be initiated at selected mattress manufacturers to determine compliance with the standard and to bring any noncomplying firms into compliance with the standard.

- Monitoring the Coal- and Wood-Burning Appliances Regulation. There is at present a high rate of compliance with the regulation by manufacturers and importers known to the staff. However, it is estimated that, within the next year, there will be 40 to 50 newly identified firms. These firms will be inspected to assure that they are familiar with the regulation and that their products properly comply.

- Household Chemical and PPPA Drug Program. The Commission will continue to respond to suspected violations of the Federal Hazardous Substances Act, the Poison Prevention Packaging Act and the Consumer Product Safety Act chemical regulations as developed from consumer complaints, trade complaints and injury reports.

II. PRODUCT SAFETY AND ENFORCEMENT
D. Field Activities
(Funds in Thousands of Dollars)

FY 1985 (Actual)		FY 1986 (Estimate)		FY 1987 (Estimate)		Difference (1986-1987)	
FTE	Funds	FTE	Funds	FTE	Funds	FTE	Funds
153	$7,226	163	$7,304	157	$7,051	-6	-$253

Program Description

The goal of the Commission's field activities is to reduce the risk of death and injury from the use of consumer products by direct contact with the regulated industry, the public, and State and local agencies with a similar product-safety mission.

The objectives of the agency's field program are to:

- achieve compliance with Commission laws, standards, and regulations;
- identify the causes of product-related injuries and deaths;
- maximize the effectiveness of the Commission's limited product-safety resources by working with State and local agencies in cooperative programs;
- increase the production, marketing, purchase and correct usage of safer consumer products by conducting consumer and industry information and education activities; and
- implement a balanced product safety program which meets nationwide objectives while at the same time addressing local and regional concerns.

Investigators in the field perform inspections and collect samples to ensure that regulated industries are complying with standards and regulations. When violations are identified, the regional office staff, working with the headquarters staff, determines compliance with mandatory standards and regulations and monitors conformance with voluntary standards that relate to the safety of products. Field and headquarters staff encourage voluntary compliance by providing advice and guidance to noncomplying firms and in the vast majority of cases no mandatory action is necessary.

Injury investigations, often performed at the scene of the accident, allow the Commission to identify product-related hazards. These investigations provide headquarters-based analysts with the information necessary to determine the human and product-related causes of accidents and to assess the effects of product-safety standards and programs on consumer injuries. The field offices also establish special reporting networks with fire marshals, consumer protection and public health and safety officials, and other groups in order to obtain immediate notification of incidents involving defective or violative products and accident scenarios of interest to the Commission.

Field staff assures the quality of information collected through the National Electronic Injury Surveillance System (NEISS) through a program of regular visits to NEISS hospitals. Field staff train hospital encoders, provide orientation to hospital staff, and evaluate the reporting through a careful records review.

Field staff work with potential sources of hazard and injury data to identify various methods of collecting data on incidents of interest to CPSC. Potential reporting sources include physician groups, insurance companies, health care organizations, state agencies, consumer groups, and others.

The Commission emphasizes cooperative efforts with State and local agencies in the areas of compliance and enforcement, outreach, and injury investigations. Reductions in funding by State and local governments for product-safety efforts have increased the importance of joint planning and information sharing to eliminate duplicative efforts and to provide consumers with the highest safety payoff at the lowest possible cost.

The field staff works with State and local organizations, industry groups, consumer, community and civic organizations, and the media to provide product-safety education to consumers. Increased emphasis continues to be placed on working jointly with industry to educate the public to buy safe products and to use products safely. In addition to these collaborative efforts, the field staff works with individual businesses, trade associations, and professional organizations to educate industry about its responsibilities under the Commission's rules and regulations.

The Commission determined it could better accomplish its product safety assessment (hazard identification) and Section 15 mission by increasing the number of investigators in the field by 10, which necessitated a corresponding reduction of field staff in FY 1985 devoted solely to information and education activities.

FY 1985 and FY 1986 Activities

o Inspections and Sample Collections. In 1985, field investigators conducted 1,988 inspections and collected 1,808 samples to determine industry's compliance with CPSC regulations. In FY 1986, field investigators will conduct approximately 2,100 inspections and collect 1,100 samples. About one-third of these inspections will be conducted to support the CPSA section 15 (substantial product hazard) activities. The inspection programs will be implemented to enforce existing regulations with emphasis on household chemicals, child-resistant closures, children's toys, and baby cribs. The field implemented a three-point compliance impact program in FY 1985 to combat the sale of illegal fireworks. Air samples from approximately 20 homes will be collected in 1986 to assess the release of asbestos by consumer products, such as furnaces. Also in FY 1986, the first full-scale import surveillance program will be implemented, in cooperation with the U.S. Customs Service. Certain imported product groups will be targeted, based on hazard, seasonality, and other factors for visual and/or technical analysis and evaluation. In addition, industry conformance to voluntary standards for certain toys, chain saws, and upholstered furniture will be determined.

In FY 1986, as in FY 1985, the section 15-related work will remain the field's single largest compliance effort.

o Injury Investigations. In FY 1985, the field staff conducted approximately 2,900 investigations of product-related injury or injury-potential incidents. Approximately 50 percent of these investigations were initiated as follow-ups to preliminary data that indicated the products involved might present a substantial product hazard. Investigations which revealed the possibility that the products presented substantial product hazards were followed by inspections of the responsible firms. Other investigations were conducted to support the agency's voluntary and mandatory standards development, assessment, and other program activities. In FY 1985, the field conducted a substantial number of investigations involving riding lawn mowers, all-terrain vehicles, portable electric heaters, and kerosene heaters.

In FY 1986, product-related accident, incident and injury investigations will again be conducted by CPSC field staff investigators. Approximately 50 percent of these investigations will be specifically oriented towards revealing possible substantial product hazards or defects. A substantial number of investigations will be conducted to support the Commission's priority projects and to support voluntary standards-development and assessment.

o Recall-Effectiveness Efforts. In FY 1985, field investigators contacted approximately 2,700 retailers, manufacturers, wholesalers, and importers to ensure that recalled products were removed from the marketplace. Field staff also worked with the media, State and local agencies, and others to notify consumers about recalls of hazardous products.

In FY 1986, the field will conduct approximately 1,700 recall checks, which is dependent upon the number of recalls initiated or undertaken.

o NEISS Support. In FY 1985, the field staff visited each of the 64 National Electronic Injury Surveillance System (NEISS) hospitals a minimum of one time to train personnel, in coding and transmitting procedures. During these visits, the field staff evaluated each hospitals reporting to determine whether the quality of their NEISS reports was adequate or needed to be improved.

In FY 1986, the field staff will again visit each NEISS hospital to train staff and/or to evaluate performance. Other visits will occur if the need arises, such as when there is new hospital staff to be trained or a drop in the quality of reporting.

o Source Development. In FY 1985, field staff developed productive reporting agreements with State fire marshalls and State medical examiners and investigated the feasibility of gaining access to appropriate special injury data reporting systems in several States.

In FY 1986, field staff will continue to work with State fire marshalls and State medical examiners but will expand source development activities in several additional areas, including a special review of ambulatory care facilities.

o Information and Education Efforts. The field's major consumer education activities in FY 1985 covered safety for older consumers and nursery equipment safety. The field's efforts to promote safety for older consumers met with great interest, enthusiasm, and acclaim by the media, other government agencies, and concerned groups. Consumers and educators were also provided with the latest information on nursery equipment safety, such as the "Buyer's Guide: The Safe Nursery," and other related literature.

In FY 1985, the field staff met with State and local governments, community groups, and consumer organizations to encourage implementation of safety education programs and reproduction and dissemination of CPSC information and educational materials. In addition, the field staff continued to provide consumers with information on toy and holiday safety, home heating equipment, electrical safety, and other available information and education (I&E) materials and worked with industry groups for the reprinting and distribution of I&E materials. They also met with regulated industries, product importers, and representatives of foreign firms to educate them regarding CPSC regulations, as well as their responsibilities under the laws administered by the Commission.

In FY 1986, the field will continue high-maintenance level activities in the I&E area. This will include continuation of some community programs covering nursery equipment safety, home heating equipment safety, chain saws, and promoting seasonal efforts, such as holiday safety, poison prevention week, and fireworks. In addition, the Commission will conduct a program to increase industry's awareness of the need to report to the Commission under its Section 15 obligations.

The field staff also was involved in coordinating the agency's hearings on all-terrain vehicles (ATVs) in FY 1985. Field efforts will continue regarding coordination of ATV hearings and ATV safety information in FY 1986.

o State and Local Cooperation. The goal of the State and local cooperation program is to reduce injuries and deaths through multiplier program efforts, which greatly expanded the impact of the Commission's consumer product safety programs. State and local professionals bring the Commission's programs alive by delivering consumer product safety information, education, and services to the constituencies they serve. In FY 1985, the Commissioners designated $100,000 for State and local contracts in 4 specific compliance and enforcement program areas: section 15 support (investigations and source-development); lead in paint on toys and children's products; recall effectiveness checks; and monitoring the toy chest voluntary standard. Small contracts subsequently were let to 37 State and local agencies, and these cost-effective contracts greatly enhanced the effect of CPSC resources while providing a basis for greater intergovernmental cooperation. Because the contracts were small, State and local governments often matched Federal funds with their own money to accomplish the Commission's objectives. These contracts have allowed the Commission to accomplish more product safety work in small cities and towns and in rural areas. In addition, the Commission's experience shows that many other product-safety projects that began under contract will continue with non-Federal (i.e., State and local) funding after the contract expires.

In FY 1985, consistent with CPSC policy to enter into work-planning agreements with State and local agencies, an additional six agreements were signed. This extends the total to 21. Work-planning agreements with State and local agencies created a partnership that extended overall consumer protection through more effective use of collective resources.

In FY 1986, State and local cooperation, given special emphasis by the Commission, will be established as an ongoing program. This reflects a commitment on the part of the agency to maintain a strong, effective relationship with States and localities in protecting the public and to fulfill the mandate of Section 29(a) of the Consumer Product Safety Act. This program will also enable the Commission to plan and monitor cooperative activities more efficiently than in the past.

In FY 1986, the State and local program will focus in 5 specific areas: section 15 support (source-development and investigations); enforcement of certain mandatory standards; recall effectiveness checks; nursery equipment accident prevention, conducted in conjunction with State cooperative extensive service agencies; and a pilot import-surveillance project, using experienced CPSC-commissioned State and local officials.

o Section 15 Support (Source-Development and Investigations). This project will build strong support for product safety activities at the State and local level while greatly increasing the number of timely incident data reports which alert the Commission to potentially hazardous products. CPSC will contract with key State and local agencies which, in turn, will provide cooperative links with State and local health and safety agencies, such as fire departments, health departments, consumer protection/affairs offices, coroners, and other sources to provide timely product incident data.

o Enforcement of Certain Mandatory Standards. In FY 1986, State and local support is needed to enforce the regulations on cribs, refuse bins, and fireworks. In addition, a program will be developed with the State boards of pharmacy so that the Poison Prevention Packaging Act standards for prescription drugs will be enforced throughout the country by the State agencies that regulate the practice of pharmacies.

o Recall Effectiveness Checks. State and local officials will assist the Commission in assuring that recalled products are more efficiently and effectively removed from the marketplace.

o Nursery Equipment Accident Prevention -- Cooperative Extension Service. Contracting with State Cooperative Extension Service agencies will result in improved statewide delivery of product safety information. In each State, the Extension Service has a network of county agents and home economists who have specific responsibility for providing information directly to consumers. These contracts will permit the Commission to reach millions of consumers with a focused safety message at minimal costs.

o Pilot Import Surveillance. This activity will support CPSC's enforcement program targeted toward imported products. Since many imported items are containerized and shipped directly to the importers, State agencies, under contract to CPSC, will inspect these firms to determine if imported products meet Commission regulations and to identify possible hazardous products under section 15.

Proposed FY 1987 Activities

In FY 1987, the Commission seeks 157 work years and $7,051,000 for field activities.

705

In FY 1987, the field and State and local agencies under contract to CPSC will perform needed inspections, investigations, recall effectiveness checks, and sample collections. Compliance programs to be conducted include enforcement of the regulations on toys, coal- and wood-burning stoves, household chemicals, and bicycles.

The field will continue its data-collection efforts to collect reports of accidents and incidents involving consumer products from sources other than consumers and NEISS hospitals. The regional offices will support the Commission's ongoing seasonal safety efforts such as poison prevention, holiday safety, fire safety, smoke detectors, electrical safety, and others.

In FY 1987, State and local cooperation will continue as an ongoing program and will be focused in four areas:

o Section 15 Support. This project will expand hazard and incident reporting and identify potentially hazardous products by building section 15 programs with State and local personnel.

o Surveillance of Regulated Products. In 1987, State and local support is needed in enforcing CPSC regulations on fireworks, cribs, toys and childrens products, childrens sleepwear, household chemicals, and lead-in-paint.

o Recall Effectiveness Checks. State and local agencies will continue to perform this vital function. Recall checks are an effective means to assure that recalled hazardous products are no longer in the marketplace.

o Import Program. This project is contingent on the success of the pilot State and local effort in 1986. If implemented, State and local efforts will support the Commission's ongoing program targeted toward imported products and will help to determine the compliance level of imported products subjected to CPSC regulations.

III. ADMINISTRATION AND GENERAL SUPPORT
(Funds in Thousands of Dollars)

FY 1985 (Actual)		FY 1986 (Estimate)		FY 1987 (Estimate)		Difference (1986-1987)	
FTE	Funds	FTE	Funds	FTE	Funds	FTE	Funds
79	$3,831	73	$3,615	69	$3,568	-4	-$47

Program Description

The goal of the administration and general support program is to provide efficient and effective administrative services and program support. The major objectives of this program are to:

- o provide all aspects of personnel management including recruitment and placement, position classification, policy development, employee and labor management relations, and employee development;
- o provide automated data processing and services for a wide range of Commission activities;
- o provide for the payment, financial control, accounting and reporting of all expenditures of appropriated funds;
- o provide for the acquisition of supplies, equipment and services from both the public and private sectors, and;
- o provide administrative services, including space management, supply and property management, safety, security, printing and photocopying, records management, library services, transportation, mail handling, telecommunications, and building maintenance.

FY 1985 and FY 1986 Activities

In addition to performing day-to-day administrative functions, the Commission accomplished or will accomplish the following:

o Personnel

- Organizational Realignment. An organizational realignment of both headquarters and field was effected in April of 1985. This included a reduction in the number of GS 11-GS/GM 15 positions, as well as excess supervisory personnel.

- Workforce Planning. In FY 1986, the capabilities of the automated personnel data base will be expanded to enhance the agency's effectiveness in planning for future staffing needs. This will include evaluation of utilization of part-time and temporary employees and implementation of accepted recommendations.

o Financial Management

- Improved Timeliness. In FY 1985, the timeliness of accounting reports was substantially improved from 3 to 4 weeks following an accounting period to within 5 workdays, thereby meeting the timeliness requirement contained in OMB Circular A-127.

- Productivity Improvements. In FY 1985, office automation equipment was acquired and installed. Significant productivity gains are expected in FY 1986 as additional applications are implemented.

o Management Services

- Space Reduction. During FY 1985, warehouse space was reduced by 30 percent and additional office space in the Westwood Towers Building (in suburban Maryland) was released to the General Services Administration. During FY 1986, actions will further reduce office space in the Westwood building.

- Private Sector Services. Increased use of contractors in FY 1985 provided administrative support services, resulting in a higher level of service with decreased costs.

- **Contracting Procedures**. In FY 1985, simplified and streamlined solicitation and contract documents were developed, resulting in easier-to-use procedures for both CPSC project officers and contractors. During FY 1986, further modification of solicitation and contract documents are expected to result in easier use and improved response time.

o **Automated Data Processing: Office Automation**. During FY 1985, CPSC installed and implemented Phase I of its office automation system. In FY 1986 and FY 1987, the plans are to continue to expand this system and its facilities to other CPSC organizational units, including the CPSC regional offices.

Proposed FY 1987 Activities

The Commission seeks 69 work years and $3,568,000 in FY 1987 to provide essential administrative and support services. CPSC will continue its efforts to reduce costs and improve the productivity and effectiveness of the administration program through improved organizational structure and procedures and the implementation of additional office-automation applications.

U.S. CONSUMER PRODUCT SAFETY COMMISSION

FY 1987 PRIORITY PROJECTS

Each of the Commission's planned priority projects for 1987 is discussed in the previous budget request narrative. The purpose of this appendix is to provide additional information concerning each priority, including the objectives of the projects and the milestones which the Commission plans to meet in order to achieve those objectives. Milestones are provided from the first year the project started to the year in which the project is expected to end.

Priority projects described in this appendix are:

		Page
1.	All-Terrain Vehicles (ATVs)	81
2.	Child Drownings	84
3.	Fire Toxicity	86
4.	Poison Prevention	89
5.	Riding Mowers	93
6.	Safety for Older Consumers	96

1. ALL-TERRAIN VEHICLES (ATVs)

HAZARD AND INJURY DATA

The Commission estimates from its National Electronic Injury Surveillance System (NEISS) that the number of hospital emergency room treated injuries associated with ATVs in 1984 was 66,956. This is almost two and one-half times the estimated number of injuries in the previous year and more than seven times the estimated number in 1982. For the first nine months of 1985 (January 1 to September 30, 1985), the estimates of ATV-related injuries treated in hospital emergency rooms is 78,000, which is approximately 44 percent higher than the estimated injuries treated during the same time period in 1984.

The Commission has reports of 324 ATV-related fatalities which occurred between January 1982 and September 1985. These death reports came from a number of sources, including death certificates, Medical Examiners and Coroners, and news clips. Reporting of death certificates by the states is not yet complete for 1983, 1984, and 1985 because reports of deaths sometimes lag significantly behind the actual event.

OBJECTIVES

The Consumer Product Safety Commission has preliminarily determined that there may be an unreasonable risk of injury associated with the use of All-Terrain Vehicles. On April 3, 1985, the Commission voted to commence a rulemaking proceeding by issuing an ANPR. At that time, the Commission also adopted a number of measures intended to assist it in obtaining further information on the hazards associated with ATVs. The goal of this project is to significantly reduce ATV injuries and fatalities by:

1. Conducting surveys of ATV injuries and consumer exposure to obtain detailed information on ATVs, and preparing hazard analyses.
2. Conducting engineering, human factors, and medical analysis of the hazards associated with ATVs and their use.
3. Monitoring the development of any voluntary standards for ATVs, pending review of future data and industry activity.
4. Sharing information with user groups and State, local, and federal officials.

5. Monitoring the ATV industry's education and training effort, including assisting or strengthening the industry effort.

MILESTONES

FY 1985

- The Commission voted to establish a priority project on ATVs by approving a seven point action plan, including commencing a rulemaking proceeding by issuing an Advance Notice of Proposed Rulemaking (ANPR).
- Commission staff and Specialty Vehicle Institute of America (SVIA) initiated voluntary standards development and prepared a draft.
- ATV Task Force commented on the voluntary standard for ATVs and sent it to the SVIA.
- Testified at the May 21, 1985 Hearing of the Commerce, Consumer and Monetary Affairs Subcommittee of the Committee on Government Operations.
- Held public hearings in: Jackson, Mississippi; Dallas, Texas; Concord, New Hampshire; and Milwaukee, Wisconsin.
- Advance Notice of Proposed Rulemaking published in the Federal Register.
- ATV Clearinghouse sent out two mailings to interested parties.

FY 1986

- Public Hearing: Los Angeles, California.
- Preliminary report on survey of ATV related injuries will be prepared.
- Monthly Voluntary standards meetings to discuss performance characteristics requirements.
- Complete technical work, including hazard analysis, exposure survey, and engineering, human factors and medical analyses.
- Prepare options paper for Commission consideration.

FY 1987

- Conduct a preliminary epidemiological and medical evaluation to analyze the effectiveness of the voluntary standard.
- Conduct human factors analyses to determine effectiveness of proposed design changes, education material and labeling in reducing the number of injuries and deaths.
- Conduct engineering test on ATVs to evaluate the effectiveness of proposed design changes in the voluntary standard.

MEASUREMENT OF EFFECTIVENESS

The measure of effectiveness in death and injury reduction resulting from Commission activities will depend upon the Commission decision on regulatory options for All-Terrain Vehicles. The effectiveness of Commission activity can be measured by using Commission death certificate, injury and economic data.

2. CHILD DROWNINGS

HAZARD AND INJURY DATA

Each year over 600 people drown in backyard swimming pools in the United States. Of these, almost 300 are children less than five years old and 200 are children under two years of age. Additionally, about 2000 children under five are treated each year in hospital emergency rooms for submersion injuries. These incidents frequently leave a child permanently incapacitated. The economic and social costs of these incidents are tremendous.

OBJECTIVES

The objective of this project is to reduce the number of child drownings and near drownings in residential swimming pools and spas. To accomplish this objective the Commission will:

1. Inform parents and other caretakers of children about the hazard of residential pool drowning.
2. Analyze the data collected in 1986 on child drownings in order to develop a better understanding of the circumstances surrounding the incidents.
3. Participate in the work groups to address child drownings established following the 1985 National Pool and Spa Safety Conference.

MILESTONES

FY 1986

- Initiate a special epidemiology study on child drownings.
- Participate in the Ad Hoc Subcommittee activities on pool safety.
- Establish a data clearinghouse on drowning and diving injuries.

FY 1987

- Analyze the Special Study on Child Drownings conducted during the 1986 swim season.

- Evaluate the effectiveness of barriers and alarms that have been recommended.
- Maintain an injury and information materials clearinghouse.
- Conduct an information program to inform parents and other caretakers of children of the potential hazard of residential swimming pools.
- Review the State/local codes for swimming pool barriers for those states that have the largest number of pool drownings.

MEASUREMENT OF EFFECTIVENESS

It is difficult to estimate at this time the reduction in the number of child drownings that will result until more is known about the circumstances surrounding the drownings and some action can be implemented to address those circumstances.

CPSC should be able to obtain a reliable measurement of the effectiveness of its work in this project by using the death certificate data base.

3. FIRE TOXICITY

HAZARD AND INJURY DATA

Residential fires are responsible for approximately 4,300 deaths annually. Of these, over two-thirds are estimated to be caused from the inhalation of toxic gases rather than burns. Estimates of injury made from National Fire Protection Association and U.S. Fire Administration data attribute approximately 15,000 injuries annually to smoke inhalation.

OBJECTIVES

The ultimate objective of this project is to reduce the toll of death and injuries resulting from the inhalation of toxic combustion products. This could be accomplished by reducing the toxicity of the fire environment, thereby increasing the likelihood of escape or rescue before fatal exposure occurs. Objectives to be accomplished in support of this goal include:

1. Identifying materials used in consumer products which, when combusted, generate highly toxic gases.
2. Determining the relationship of laboratory combustion toxicity tests to the toxicity hazards generated in full scale room fires.
3. Utilizing fire hazard assessment model(s) to develop the capability to predict toxicity and to guide the selection of materials to reduce the total combustion toxicity hazard.
4. Focusing Federal, State, local, and industry activities in combustion toxicity to enhance effective communication between projects, to prevent duplication of efforts, to more rapidly further the advancement of knowledge in this area, and to form a consensus on appropriate actions to reduce death and injury from toxic combustion products.

MILESTONES

FY 1984

- Determined the relative toxicity of 10 materials, alone or in combination, used in upholstered furniture.
- Reviewed literature covering the toxic combustion products generated by 10 plastics.

- o Focused Federal activities in the field of fire toxicity. Arranged a public symposium on the state-of-the-art and issued reports on activities.

FY 1985

- o Determined the relative toxicity of an additional 18-22 materials used in consumer products.
- o Reviewed literature on the toxic combustion products generated by an additional 10 plastics.
- o Initiated a program to investigate the relationship of laboratory combustion toxicity tests to the toxicity hazard generated in full scale room fires.
- o Initiated a program to determine physiological parameters which are better indicators to relate the ability of an individual to escape and survive a fire situation.
- o Investigated the available hazard assessment models to determine which are most appropriate for use by CPSC to determine materials and techniques which will reduce the combustion toxicity hazard.
- o Continued to focus Federal, State, and local activities in the area of combustion toxicity; held periodic meetings, issued reports, began joint efforts, and participated in voluntary standards activities.
- o In conjunction with the EPA, FAA, and Department of the Navy, initiated a study at the National Academy of Sciences to investigate physiological and behavioral end points, the use of fire hazard assessment models, and developed guidelines to apply fire toxicity data to the materials selection process.

FY 1986

- o Continue determination of combustion toxicity of additional materials as indicated.
- o Complete the study at the National Academy of Sciences which will include guidelines for application of appropriate fire toxicity data to the materials selection process.
- o Complete the determination of the relationship of the laboratory combustion toxicity tests to the toxicity hazard generated in full scale room fires.

- Use fire hazard assessment model(s) to estimate the contributions of various consumer products to the total fire hazard.
- Expand liaison activities to include Federal, State, local, and industry activities in the form of an advisory group, joint investigative activities, and standards setting.
- Actively participate in voluntary standards organization(s) (ASTM E 5.21 and E 5.39) to achieve the adoption of appropriate toxicity protocols and total hazard assessment models to allow for the prediction of toxicity and guide the selection of materials to reduce the total combustion toxicity hazard.

FY 1987

- To provide a basis for recommending voluntary standard changes the Commission will: (1) obtain cost benefit information on the cost of possible substitute materials; (2) obtain results on large to small scale test comparisons; and (3) maintain state-of-the-art capabilities in fire hazard modeling techniques.
- Continue to participate with the ASTM to develop appropriate voluntary standards to reduce the total combustion toxicity hazard.
- Cooperate with other Federal organizations, State and local jurisdictions, and industry groups to make recommendations for standards for product modification or usage to reduce the overall fire hazard and number of deaths caused from the inhalation of toxic combustion products.

FY 1988

- Continue to cooperate with standard setting organizations and building code officials to ensure acceptance and compliance with the voluntary efforts.

MEASUREMENT OF EFFECTIVENESS

The effectiveness of this project will be measured by the eventual reduction of deaths and injuries from combustion toxicity. These measurements will be based on estimates calculated from data from the U.S. Fire Administration and The National Fire Protection Association in conjunction with CPSC in-depth investigations.

4. POISON PREVENTION

HAZARD AND INJURY DATA

In 1984, an estimated 156,000 children under age five were treated in hospital emergency rooms for accidental ingestions, chemical burns, and other acute injuries associated with household chemical products. Accidental ingestions accounted for 84 percent of these injuries. The most recent data from the National Center for Health Statistics show 55 deaths in 1983 resulting from accidental ingestion of household chemical products by young children.

Data from poison centers indicate that prescription drugs alone, of the product categories regulated under the PPPA, have not shown the dramatic decline in ingestions seen for the other categories. A study conducted by one regional poison center showed that a large percentage of accidental prescription drug ingestions involved grandparents' medication and/or medication that was not in child-resistant packaging prior to the ingestion incidents.

OBJECTIVES

The goal of the project is to reduce exposure of young children to hazardous household chemicals by assessing the need for special packaging of unregulated chemical products, and by increasing the effectiveness of current special packaging regulations. Specific project objectives are:

1. Maintain the "Children and Poisonings" data base. Monitor data bases and literature to identify chemical products involved in serious injury or death to young children. Monitor the transfer of drugs from prescription to over-the-counter status; determine need for special packaging of transferred drugs.

2. Evaluate the impact of non-child-resistant packaging and grandparents' medication on accidental childhood ingestions of prescription drugs. Develop and implement education programs directed at older consumers, or at other populations at risk of exposing young children to prescription drugs.

3. Complete revisions of the PPPA testing protocol to (1) include older adults in evaluating the effectiveness of child-resistant packaging, and (2) improve the efficiency of child testing.

4. Evaluate factors which affect the proper use of special packaging designs by adult user groups. Develop human factors data which can be used to assist manufacturers in improving performance and quality of special packaging.

MILESTONES

FY 1983

- Developed comprehensive text on the PPPA and its regulations for use by pharmacy students, phramacists, and physicians. Pilot tested text in 30 pharmacy schools, distributed text to all U.S. pharmacy schools and to other professional health organizations. Text is widely used by Field staff in pharmacy enforcement action.
- Conducted PPPA educational seminars for practicing pharmacists in 36 cities. Negotiated with State Boards of Pharmacy to award continuing education credits for participation in the seminars.
- Developed protocol for consumer survey to determine impact of dual-purpose packaging on accidental childhood ingestions. Developed and let contract for pilot study to determine feasibility of collecting pertinent data from consumer survey.
- Published Advance Notice of Proposed Rulemaking to revise the PPPA testing protocol. Prepared and awarded contract for testing to verify suggested revisions to the protocol.

FY 1984

- Conducted PPPA educational seminars for practicing pharmacists in 26 cities.
- Conducted a pilot study with a major poison control center to evaluate the impact of dual purpose packaging on childhood ingestions of prescription drugs.
- Conducted a study, jointly with the FDA, to evaluate older consumers' ability to use packaging that is both child-resistant and tamper-resistant.
- Conducted PPPA protocol tests to verify revisions to the protocol that would (1) include older adults in the testing, and (2) reduce the number of children tested.

FY 1985

- Completed PPPA protocol tests to verify revisions to the test protocol.

- o Evaluated results of pilot study to determine impact of dual-purpose packaging on childhood prescription drug ingestions. The study showed a high involvement of grandparents' medication in such ingestions and also, a high incidence of non-child-resistant prescription vials in homes with young children. Developed model and awarded contract for a nationwide study to determine if these data are representative of the nation as a whole, or are simply regional phenomena.

FY 1986

- o Complete recommendations for adult and child protocol testing revisions and propose revisions.
- o Work with American Veterinary Medical Association on effort for voluntary special packaging of household veterinary prescription drugs.
- o Complete regional surveys of prescription drug ingestions to determine impact of non-child-resistant packaging and grandparents' medication on accidental ingestions.
- o Complete action on petition to exempt Alka-Seltzer products from special packaging standards.

FY 1987

- o Complete analysis of results of prescription drug ingestion survey and develop recommendations. Develop and implement education programs directed at population at risk of exposing young children to prescription drugs.
- o Complete final adult and child protocol revisions.
- o Award contract to develop human factors data for use in designing child-resistant packaging that is amenable to use by older consumers.

FY 1988

- o Continue revision, as necessary, and distribution of adult educational materials.
- o Continue contract to develop human factors data.

FY 1989

- o Complete contract to develop human factors data for use in designing child-resistant packaging that is amenable to use by older consumers. Analyze results and develop recommendations.

MEASUREMENT OF EFFECTIVENESS

To measure the effectiveness of this project, the Commission will monitor data from NEISS, poison control centers and other data bases to determine reductions in accidental childhood ingestions.

5. RIDING MOWERS

HAZARD AND INJURY DATA

An estimated 100 deaths each year are associated with riding mowers and garden tractors. These products were involved in an estimated 50,000 medically-attended injuries in 1984. The major hazard associated with the use of riding mowers and garden tractors is blade contact. Approximately 80 percent of the fatal accidents involve three hazard patterns: (1) mower tipover, (2) victim falls under or is run over by mower (incidents involving young children fall in this categroy), and (3) victim is thrown from or falls off the mower. Additionally, a significant portion of riding mower injuries involve amputations, fractures and dislocations. The risk of injury associated with a riding mower is 50 percent higher than the risk with a walk-behind mower. The rate of hospitalization for riding mowers is almost twice the average rate for all injuries reported through the Commission's National Electronic Injury Surveillance System (NEISS).

OBJECTIVES

Reduce the annual deaths and injuries associated with riding mowers by:

1. Collecting and analyzing additional injury, human factors and engineering data needed to support Commission recommendations and to evaluate industry proposals.

2. Participating with industry in the ongoing effort to upgrade the voluntary standard to address (1) dynamic stability, (2) blade control, (3) backover/runover, and (4) safety instructions.

3. Informing the public about safe use and maintenance practices to minimize the hazards associated with the use of riding mowers and garden tractors.

MILESTONES

FY 1984

- Developed and supported recommendations for voluntary standards requirements for operator presence controls, minimum seat back height, dynamic turn tests, and sudden traction tests.

- Commented on OPEI proposed revisions to ANSI B71.1 Standard.

- Met quarterly with OPEI Riding Mower Working Group.

FY 1985

- Collected injury data on riding mowers, lawn and garden tractors for the 1985 mowing season, and assigned on-site investigations for all deaths identified through the FY 1983, FY 1984, and FY 1985 death certificates or through the MECAP reports and newsclips.
- Conducted limited testing of prototype mowers.
- Met quarterly with OPEI Riding Mower Working Group.
- Completed the first Human Factors Contract, "Analysis of Warning Devices for Riding Type Lawn Mowers".
- Awarded contract for "Evaluation of the Effectiveness of Riding Mower Warning Devices".
- Awarded a two year contract to develop a field test method and a computer simulation model to assess the dynamic stability of riding mowers.
- Briefed the Commission on the project progress.

FY 1986

- Meet quarterly with OPEI Riding Mower Working Group.
- Continue hazard analysis, engineering analysis, and human factors analysis.
- Monitor Phase 1 of the two-year contract to develop a field test method and a computer model to evaluate dynamic stability of riding mowers.
- Complete Human Factors contract for "Evaluation of the Effectiveness of Riding Mower Warning Devices".

FY 1987

- Continue hazard analysis, engineering analysis, and human factors analysis of injury data.
- Meet quarterly with OPEI Riding Mower Working Group on results of work regarding back-over and tip-over accidents.

- Complete Phase 2 of the two-year contract to develop a field test method and a computer model to evaluate dynamic stability of riding mowers.

FY 1988

- Recommend standard improvements to OPEI Riding Mower Working Group.

MEASUREMENT OF EFFECTIVENESS

The measure of effectiveness in death and injury reduction resulting from Commission staff activities will be dependent upon recommendations made and accepted by ANSI and the effective dates of the updated requirements. After Commission staff recommendations are approved, an estimate of reduction can then be made. The effectiveness of Commission activity can be measured by using Commission death certificate, injury and economic data.

6. SAFETY FOR OLDER CONSUMERS

HAZARD AND INJURY DATA

Census Bureau statistics show that the population of Americans 65 years and older has increased dramatically in recent years and will continue to grow. Between 1970 and 1980, for example, this population has increased by 5.5 million. In 1982, a record 11.6 percent of America's population was 65 or older, and the proportion of elderly will increase to 12.2 percent by the year 2000.

The elderly are particularly vulnerable to accidental injury. Changes in vision and muscular agility and loss of speed in reacting to stimuli or adapting to new environments, coupled with tendencies for bones to break more easily and heal more slowly, may predispose the elderly to more severe or lasting injuries. Although the elderly may suffer accidental injuries less frequently than do younger poeple, when an injury occurs it is much more likely to be fatal. In 1983, the cost of medically attended injuries to persons 65 or older totalled an estimated $3 billion. In 1981 medical expenses for the elderly made up 1/3 of the nation's total health expenses of $225 billion. Of the $83 billion spent on health care for the elderly, 64 percent, or $53 billion, was paid for by Medicare, Medicaid or other Federal government programs. Given the increasing proportion of elderly and the continuing medical care price increases in excess of the overall consumer price index, the need for accident prevention measures is apparent.

OBJECTIVES

To reduce the risk of accidental injury and death to older consumers by:

1. Encouraging State and local agencies to initiate safety audit programs within their areas, and assist State and local authorities and other groups in using the CPSC "Home Safety Checklist" to audit the homes of older consumers to identify product hazards.

2. Promoting safety of older consumers to the public through national media, cooperative efforts with major national organizations and businesses, and distribution of information to the public.

3. Producing a safety design guide for consumer products.

4. Working with manufacturers to develop a voluntary standard for step stools.

MILESTONES

FY 1984

- Developed a Home Safety Checklist that older consumers can use to reduce hazards and improve safety in their homes.
- Worked with the Administration on Aging and other appropriate groups that serve or represent the elderly to implement a pilot home safety audit program at a selected site.
- Conducted the pilot home safety audit program in a sample of approximately 2,000 households (including single family homes, apartments, mobile homes, etc.) headed by older consumers (i.e., persons 65 years of age and older).
- Collected pre- and post-audit information in order to evaluate the home safety audit program and to compare it with other information dissemination techniques (i.e., mailing information to consumers).

FY 1985

- Contractor completed analysis of pre- and post-audit data and issued final evaluation report.
- The pilot home safety audit program was found successful, therefore was implemented nationwide.
- Provided information on the strategies developed and lessons learned during the course of the pilot project to organizations serving older people.
- Invited interested Federal, State, and local government officials, media, organization and business representatives to a public meeting to discuss the pilot program and to consider implementing similar or related programs.
- Worked with organizations and communities to establish home safety audit programs in which older consumers used the CPSC "Home Safety Checklist" to audit their own homes to identify product hazards.

- Worked with organizations, businesses and media to promote distribution of safety information for older consumers.

FY 1986

- Safety for Older Consumers is an "ongoing" (non-priority) project in FY 1986. Contacts with State and local agencies serving older people will be maintained.

FY 1987

- Work with industry to develop a voluntary standard on step stools to help reduce the injuries and deaths due to poorly designed or manufactured step stools.
- Develop a design guide to be used by product designers, manufacturers, government agencies, builders, code organizations and others. The guide will identify diminished physical characteristics typical of the elderly (e.g., hearing, vision, manual dexterity, etc.) and relate these to products that can be especially hazardous to the older consumer population.
- Develop a videotape to show older people how to use the CPSC Home Safety Checklist to check their own homes. Distribute the videotape to Area Agencies on Aging.
- Maintain contacts with national, State, and local agencies serving older people and encourage them to use the checklist in training sessions with older people.
- Revise and update the Home Safety Checklist and a display of safety devices to reflect new technology and new insights into preventing injuries to older people.

MEASUREMENT OF EFFECTIVENESS

The effectiveness of the project will be measured by determining changes in older consumers' awareness of potential hazards in their homes and the extent to which changes were actually made to improve safety in the home. In addition, the success of the project will be measured in determining the extent to which organizations serving the elderly, both governmental and private organizations, have disseminated information to the older consumers or incorporated the home safety audit program into their ongoing programs.

OBJECT CLASSIFICATION
(Dollars in Thousands)

		1985 Actual	1986 Estimate	1987 Estimate
	Direct obligations:			
	Personnel compensation:			
11.1	Full-time permanent	$19,162	$19,348	$18,106
11.3	Other than full-time permanent	1,348	1,383	1,298
11.5	Other personnel compensation	161	157	154
11.8	Special personnel services payments	55	63	63
11.9	Total personnel compensation	20,726	20,951	19,621
	Personnel benefits:			
12.1	Civilian	2,447	2,472	2,310
13.0	Benefits for former personnel	67	65	65
	Subtotal	23,240	23,488	21,996
21.0	Travel and transportation of persons	578	809	700
22.0	Transportation of things	38	36	33
23.1	Standard level user charge	2,363	2,197	2,164
23.2	Rental payments to others	--	--	--
23.2	Communication, utilities and other rent	1,603	1,910	1,892
24.0	Printing and reproduction	573	533	504
25.0	Other services	6,290	6,284	5,020
26.0	Supplies and materials	425	402	383
31.0	Equipment	663	381	303
42.0	Insurance claims and indemnities	--	5	5
99.0	Subtotal, direct obligations	35,773	36,045	33,000
	Reimbursable obligations:			
21.0	Travel and transportation of persons	--	5	5
25.0	Other services	380	400	400
99.9	Total obligations	$36,153	$36,450	$33,405

PERSONNEL SUMMARY

	1985 Actual	1986 Estimate	1987 Estimate
Direct:			
Total number of full-time permanent positions	500	516	500
Total compensable work years:			
Full-time equivalent employment	573	581	540
Full-time equivalent of overtime and holiday hours	5	5	5
Average ES salary	$67,130	$68,253	$68,253
Average GS grade	11.01	11.01	10.99
Average GS salary	$35,794	$36,116	$36,000

TRAVEL CEILINGS BY ORGANIZATION
(Dollars in Thousands)

Organization	1985 Actual	1986 Estimate	1987 Estimate
Chairman and Commissioners	$27	$40	$37
Office of the Secretary	1	1	1
Office of Congressional Relations	1	2	1
Office of General Counsel	15	14	15
Office of Internal Audit	1	2	2
Office of Media Relations	--	2	2
Office of Equal Employment Opportunity	1	1	1
Office of the Executive Director	9	8	9
Office of Budget, Program Planning and Evaluation	13	9	3
Office of Program Management	11	109*	16
Office of Information and Public Affairs	5	5	5
Directorate for Epidemiology	10	15	15
Directorate for Economic Analysis	1	4	4
Directorate for Engineering Sciences	26	30	31
Directorate for Health Sciences	35	55	55
Directorate for Compliance	30	65	65
Directorate for Administration	25	37	43
Directorate for Field Operations	7	14	14
Field Offices	360	396	381
TOTAL	$578	$809	$700

* Includes $25,000 of the two-year supplemental appropriation and $70,000 of the FY 1986 appropriation for Cigarette Safety travel.

RESOURCES BY ORGANIZATION

FY 1985

Organization	FTEs	Funds ($000)
Commissioners	18	$1,127
Office of the Secretary	25	1,187 1/
Office of Congressional Relations	4	174
Office of General Counsel	21	1,056
Office of Internal Audit	2	78
Office of Equal Employment Opportunity and Minority Enterprise	2	102
Office of Media Relations	3	176
Executive Director	5	534
Office of Budget, Program Planning and Evaluation	10	522
Office of Program Management	18	1,453
Directorate for Epidemiology	54	3,608
Directorate for Economic Analysis	15	989
Directorate for Engineering Sciences	62	3,770
Directorate for Health Sciences	48	3,426
Office of Information and Public Affairs	9	833 1/
Directorate for Compliance and Administrative Litigation	39	1,915
Directorate for Administration	84	3,023
Directorate for Field Operations	5	220
Field Offices	149	7,006
Common Costs*	--	4,574
Total Commission Resources	573	$35,773

* Costs incurred by the Agency as a whole and not charged to any individual organization.

1/ Distribution of 1985 funds for these two offices does not reflect transfer of hotline and graphics services to the Office of Information and Public Affairs.

RESOURCES BY ORGANIZATION

FY 1986

Organization	FTEs	Funds ($000)
Commissioners	22	$1,231
Office of the Secretary	17	654
Office of Congressional Relations	4	226
Office of General Counsel	18	1,001
Office of Internal Audit	2	113
Office of Equal Employment Opportunity and Minority Enterprise	3	164
Office of Media Relations	2	120
Executive Director	6	328
Office of Budget, Program Planning and Evaluation	11	600
Office of Program Management	15	1,794
Directorate for Epidemiology	51	3,809
Directorate for Economic Analysis	17	885
Directorate for Engineering Sciences	69	4,015
Directorate for Health Sciences	51	3,037
Office of Information and Public Affairs	12	1,405
Directorate for Compliance and Administrative Litigation	41	2,149
Directorate for Administration	70	2,879
Directorate for Field Operations	5	234
Field Offices	152	7,070
Common Costs*	--	4,286
Total Commission Resources	568	$36,000

* Costs incurred by the Agency as a whole and not charged to any individual organization.

RESOURCES BY ORGANIZATION

FY 1987

Organization	FTEs	Funds ($000)
Commissioners	22	$1,279
Office of the Secretary	16	653
Office of Congressional Relations	3	174
Office of General Counsel	15	863
Office of Internal Audit	2	116
Office of Equal Employment Opportunity and Minority Enterprise	2	116
Office of Media Relations	2	129
Executive Director	6	397
Office of Budget, Program Planning and Evaluation	10	662
Office of Program Management	13	669
Directorate for Epidemiology	48	3,722
Directorate for Economic Analysis	14	801
Directorate for Engineering Sciences	64	3,494
Directorate for Health Sciences	45	2,608
Office of Information and Public Affairs	11	1,314
Directorate for Compliance and Administrative Litigation	38	1,971
Directorate for Administration	66	2,834
Directorate for Field Operations	4	190
Field Offices	146	6,861
Common Costs*	--	4,147
Total Commission Resources	527	$33,000

* Costs incurred by the Agency as a whole and not charged to any individual organization.

DETAIL OF PERMANENT POSITIONS

	1985 Actual	1986 Estimate	1987 Estimate
Executive Level III............	1	1	1
Executive Level IV.............	4	4	4
Subtotal..	5	5	5
ES-6..........................	-	2	2
ES-5..........................	1	1	1
ES-4..........................	7	6	6
ES-3..........................	3	3	3
ES-1..........................	2	1	1
Subtotal..	13	13	13
GS/GM-16......................	1	1	1
GS/GM-15......................	45	45	45
GS/GM-14......................	63	63	57
GS/GM-13......................	81	81	78
GS-12.........................	87	87	85
GS-11.........................	77	77	77
GS-10.........................	2	2	2
GS-09.........................	34	34	32
GS-08.........................	13	13	13
GS-07.........................	19	19	18
GS-06.........................	39	39	37
GS-05.........................	23	23	23
GS-04.........................	12	12	12
GS-03.........................	2	2	2
Subtotal..	498	498	482
Total Permanent Positions......	516	516	500
Unfilled Positions, end of year	-16	--	--
Total Permanent Employment, end of year......................	500	516	500

735

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STAFFING CHARTS - FULL TIME PERMANENT POSITIONS

ACTING CHAIRMAN DAWSON

GRADE AND TITLE	85	86	87
LEVEL III CHAIRMAN	1	1	1
GS-16 EXECUTIVE ASSISTANT	1	1	1
GS-14 SPECIAL ASSISTANT	1	1	1
GS-13 AND BELOW	1	3	3
TOTAL FTP	4	6	6

COMMISSIONER SCANLON

GRADE AND TITLE	85	86	87
LEVEL IV COMMISSIONER	1	1	1
GS-15 SPECIAL ASSISTANT	1	1	1
GS-14 SPECIAL ASSISTANT	1	1	1
GS-12 AND BELOW	3	1	1
TOTAL FTP	6	4	4

COMMISSIONER ARMSTRONG

GRADE AND TITLE	85	86	87
LEVEL IV COMMISSIONER	1	1	1
GS-15 SPECIAL ASSISTANT	2	2	2
GS-13 AND BELOW	1	1	1
TOTAL FTP	4	4	4

COMMISSIONER STATLER

GRADE AND TITLE	85	86	87
LEVEL IV COMMISSIONER	1	1	1
GS-15 ATTORNEY ADVISOR	1	1	1
GS-13 AND BELOW	2	2	2
TOTAL FTP	4	4	4

COMMISSIONER GRAHAM

GRADE AND TITLE	85	86	87
LEVEL IV COMMISSIONER	(1)	1	1
GS-15 SPECIAL ASSISTANT	(1)	1	1
GS-14 SPECIAL ASSISTANT	(1)	1	1
GS-13 AND BELOW	(1)	1	1
TOTAL FTP	(4) 1/	4	4

1/ 4 vacant positions were allocated to this Commissioner's office in 1985.

OFFICE OF THE SECRETARY

GRADE AND TITLE	85	86	87
GM-15 SECRETARY	1	1	1
GM-14 ASSISTANT SECRETARY	1	1	1
GM-14 FREEDOM OF INFORMATION OFFICER	1	1	1
GS-13 AND BELOW	11	11	11
TOTAL FTP	14	14	14

OFFICE OF CONGRESSIONAL RELATIONS

GRADE AND TITLE	85	86	87
GM-15 DIRECTOR	1	1	1
GS-13 AND BELOW	3	3	2
TOTAL FTP	4	4	3

OFFICE OF INTERNAL AUDIT

GRADE AND TITLE	85	86	87
GM-15 DIRECTOR	1	1	1
TOTAL FTP	1	1	1

OFFICE OF THE GENERAL COUNSEL

GRADE AND TITLE	85	86	87
SES-6 GENERAL COUNSEL	0	1	1
SES-4 GENERAL COUNSEL	1	0	0
GM-15 ASSISTANT GENERAL COUNSEL	3	3	3
GS-15 ATTORNEY	1	1	1
GS-14 ATTORNEY	8	8	8
GS-13 AND BELOW	4	4	4
TOTAL FTP	17	17	17

OFFICE OF MEDIA RELATIONS

GRADE AND TITLE	85	86	87
GM-15 DIRECTOR	1	1	1
GS-13 AND BELOW	1	1	1
TOTAL FTP	2	2	2

OFFICE OF EQUAL EMPLOYMENT AND MINORITY ENTERPRISE

GRADE AND TITLE	85	86	87
GM-15 DIRECTOR	1	1	1
GS-13 AND BELOW STAFF	1	1	0
UPWARD MOBILITY	1	1	1
TOTAL FTP	3	3	2

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OFFICE OF THE EXECUTIVE DIRECTOR

GRADE AND TITLE	85	86	87
SES-6 EXECUTIVE DIRECTOR	0	1	1
SES-3 EXECUTIVE DIRECTOR	1	0	0
SES-3 DEPUTY EXECUTIVE DIRECTOR	0	1	1
SES-1 DEPUTY EXECUTIVE DIRECTOR	1	0	0
GS-15 VOLUNTARY STANDARDS COORDINATOR	1	1	1
GS-15 PROGRAM ANALYST	1	1	1
GS-13 AND BELOW	2	2	2
TOTAL FTP	6	6	6

OFFICE OF PROGRAM MANAGEMENT

GRADE AND TITLE	85	86	87
SES-4 DIRECTOR	1	1	1
GM-15 PROGRAM MANAGER	2	2	2
GM-15 FIRE PROGRAM OFFICER	1	1	1
GM-14 PROGRAM MANAGER	2	2	2
GM-14 ASSISTANT PROGRAM MANAGER	1	1	1
GS-13 AND BELOW	8	8	7
TOTAL FTP	15	15	14

DIRECTORATE FOR FIELD OPERATIONS

GRADE AND TITLE	85	86	87
SES-3 ASSOCIATE EXECUTIVE DIRECTOR	1	1	1
GS-14 STATE AND LOCAL PROGRAM OFFICER	1	1	1
GS-13 AND BELOW	3	3	3
TOTAL FTP	5	5	5

OFFICE OF INFORMATION AND PUBLIC AFFAIRS

GRADE AND TITLE	85	86	87
GM-15 OFFICE DIRECTOR	1	1	1
GS-15 EDUCATION SPECIALIST	1	1	1
GS-13 AND BELOW	10	10	9
TOTAL FTP	12	12	11

738

OFFICE OF BUDGET, PROGRAM PLANNING AND EVALUATION

GRADE AND TITLE	85	86	87
SES-1 DIRECTOR	1	1	1
GM-15 BUDGET AND PLANNING OFFICER	1	1	1
GS-14 PROGRAM ANALYST	1	1	1
GS-13 AND BELOW	8	8	7
TOTAL FTP	11	11	10

DIRECTORATE FOR ENGINEERING SCIENCES

GRADE AND TITLE	85	86	87
SES-4 ASSOCIATE EXECUTIVE DIRECTOR	1	1	1
GM-15 DIVISION DIRECTOR	4	4	4
GM-14 BRANCH CHIEF	7	7	7
GS-14 MECHANICAL ENGINEER	1	1	1
GS-13 AND BELOW	45	45	44
TOTAL FTP	58	58	57

DIRECTORATE FOR HEALTH SCIENCES

GRADE AND TITLE	85	86	87
SES-4 ASSOCIATE EXECUTIVE DIRECTOR	1	1	1
SES-5 DEPUTY ASSOCIATE EXECUTIVE DIRECTOR	1	1	1
GM-15 MEDICAL OFFICER	1	1	1
GM-15 DIVISION DIRECTOR	2	2	2
GM-14 DIVISION DIRECTOR	1	1	1
GM-14 PROGRAM MANAGER	1	1	1
GS-14 TOXICOLOGIST	1	1	1
GM-14 BRANCH CHIEF	4	4	4
GS-14 PHARMACOLOGIST	1	1	1
GM-14 VETERINARY MEDICAL OFFICER	1	1	1
GS-13 AND BELOW	32	32	31
TOTAL FTP	46	46	45

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DIRECTORATE FOR COMPLIANCE AND ADMINISTRATIVE LITIGATION

GRADE AND TITLE	85	86	87
SES-4 ASSOCIATE EXECUTIVE DIRECTOR	1	1	1
GM-15 DIVISION DIRECTOR	3	3	3
GM-14 SPECIAL ASSISTANT	1	1	1
GS-14 ATTORNEY	10	10	9
GS-14 COMPLIANCE OFFICER	1	1	1
GS-13 AND BELOW	22	22	22
TOTAL FTP	38	38	37

DIRECTORATE FOR ECONOMICS

GRADE AND TITLE	85	86	87
SES-3 ASSOCIATE EXECUTIVE DIRECTOR	1	1	1
GM-15 DIVISION DIRECTOR	2	2	2
GS-14 ECONOMIST	2	2	2
GS-13 AND BELOW	12	12	11
TOTAL FTP	17	17	16

DIRECTORATE FOR EPIDEMIOLOGY

GRADE AND TITLE	85	86	87
SES-4 ASSOCIATE EXECUTIVE DIRECTOR	1	1	1
GM-15 DEPUTY ASSOCIATE EXECUTIVE DIRECTOR	1	1	1
GM-15 DIVISION DIRECTOR	2	2	2
GM-14 STATISTICIAN	1	1	1
GM-14 PROGRAM ANALYST	1	1	1
GS-13 AND BELOW	36	36	35
TOTAL FTP	42	42	41

DIRECTORATE FOR ADMINISTRATION

GRADE AND TITLE	85	86	87
SES-4 ASSOCIATE EXECUTIVE DIRECTOR	1	1	1
GM-15 DEPUTY ASSOCIATE EXECUTIVE DIRECTOR	1	1	1
GM-15 DIVISION DIRECTOR	3	3	3
GM-14 SUPERVISORY PERSONNEL SPECIALIST	1	1	1
GS-14 INFORMATION AND SECURITY SPECIALIST	1	1	1
GM-14 ACCOUNTING OFFICER	1	1	1
GM-14 BRANCH CHIEF	3	3	3
GS-13 AND BELOW	52	52	51
TOTAL FTP	63	63	62

REGIONAL OFFICES

GRADE AND TITLE	85	86	87
GM-15 REGIONAL OFFICE DIRECTOR	4	4	4
GM-14 REGIONAL OFFICE DIRECTOR	1	1	1
GM-14 DEPUTY REGIONAL OFFICE DIRECTOR	5	5	0
GS-13 AND BELOW	130	130	130
TOTAL FTP	140	140	135

CONSULTING SERVICES
(Funds in Thousands of Dollars)

Type of Consulting Services	1985 Actual	1986 Estimate	1987 Estimate
Contractual Services..................	$41	$25	--
Personnel Appointments................	24	18	$18
Advisory Committee Expenses...........	38	146	14
TOTAL................	$103	$189	$32

CONSULTING SERVICES - 1987

In 1987, $32,000 is scheduled to be obligated for consulting services for the following purposes:

Commission Policy Development and Direction

The Consumer Product Safety Amendments of 1981 established Chronic Hazard Advisory Panels. The amendment states that the Commission may not issue an advance notice of proposed rulemaking related to a chronic risk of cancer, birth defects or gene mutations from a consumer product unless a panel has submitted, and the Commission has considered, a report with respect to whether a substance contained in a consumer product is a carcinogen, teratogen, or mutagen. In 1986, $15,000 is targeted for obligation to support Chronic Hazard Advisory Panels and the Technical Advisory Panel on allergic sensitization, which provides scientific and technical advice to the Commission.

The Technical Study Group on Cigarette and Little Cigar Fire Safety will conduct activities in 1986 to explore the technical and commercial feasibility of producing cigarettes with less propensity to ignite upholstered furniture and mattresses. No funds are requested to support this advisory committee in 1987, resulting in a reduction of $130,000.

Compliance and Enforcement

In 1986, $10,000 will be used for an estimated two to three consultant personnel appointments. These consultants will provide technical expertise, not available in the Commission, which is necessary to make substantial product hazard determinations in widely varying areas on a specific case-by-case basis.

In addition, $8,000 is planned for an estimated two to three expert witnesses. The consultants, possessing expertise unavailable within CPSC, will assist in enforcement and civil penalty litigation.

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THURSDAY, FEBRUARY 27, 1986.

NATIONAL INSTITUTE OF BUILDING SCIENCES

WITNESSES

HERMAN J. SMITH, VICE CHAIRMAN
GENE C. BREWER
BRIAN R. LANDERGAN

Mr. BOLAND. The Committee will come to order. We are delighted to have with us this morning the National Institute of Building Sciences. We welcome Mr. Brewer, the President, and also the Vice Chairman of the Board of Directors, Mr. Smith.

And you have a statement I understand.

Mr. SMITH. Yes, sir.

Mr. BOLAND. Why don't you go ahead with it.

Mr. SMITH. Thank you, Mr. Chairman. Members of the Committee, I am Herman J. Smith from Fort Worth, Texas, Vice Chairman of the NIBS Board.

Accompanying me this morning is Mr. Gene Brewer, our President, and Mr. Brian Landergan, our Vice President. If it's all right, Mr. Chairman, I would prefer to make some comments and summarize and present the testimony for the record.

Mr. BOLAND. That would be fine.

OPENING STATEMENT

Mr. SMITH. Last year, we at NIBS reported that we had qualified for the total amount of funds generated by the trust fund at the Treasury Department to be dispensed during fiscal 1985. This year, I am pleased to report that our efforts during 1985 again qualified for the maximum of $500,000 for distribution quarterly through fiscal 1986.

PRIVATE SECTOR SUPPORT

The private sector continues to support the Institute with cash contributions and, of equal or perhaps greater importance, with thousands of manhours of volunteer expertise. I might add, Mr. Chairman, we have between four and five hundred people throughout the country that serve on our consulting groups that have been very helpful to us, for example, inside and outside of the academic world, professional technicians and various other organizations, throughout the year.

And I have here a calendar of events for this year that would certainly show the various organizations that have been helpful. This is volunteer service. These people do not charge us, and this has been very helpful in reaching our decisions and preparing reports that we will talk about later.

As far as the financing, as I testified last year, the NIBS' work on behalf of safer, better and more cost effective buildings for the American people has benefited measurably from your matching funds in the previous years.

MEMBERSHIP

The Institute is working to broaden its membership and economic base and to expand its influence in building technology and science.

With this prepared testimony, we have included our operating budget for fiscal year 1986. Mr. Chairman, I am pleased to report that the Institute has in the last year been able to turn with renewed vigor to pursuing its public service objectives, which are to improve the building regulatory environment and to encourage the introduction of new technology into the building process.

Briefly I will give a new examples. Quality in construction has been an item that we've been very concerned about. We believe that NIBS' consensus approach is working. It has been very helpful, as I mentioned earlier, in working with our consulting groups.

NIBS COUNCILS

Another item, for example, is the Building Seismic Safety Council. This is an organization sponsored by NIBS and operating under its auspices. It has developed a document of significant potential importance to the safety of Americans in earthquakes.

The Building Thermal Envelope Coordinating Council has been very active in fiscal year 1985 in promoting understanding of elements of the building thermal envelope and their importance in energy conservation.

And, of course, when we get into communities that are successful in tightening the building thermal envelope, then we get into this thing called Indoor Air Quality. A NIBS project committee during 1985 identified and described standards, regulations and other technical criteria directly related to indoor air quality.

ASBESTOS

And then, of course, one of the main subjects of discussion this past year has been the abatement of asbestos in buildings. Last year, we mentioned a need for asbestos abatement guidelines. In response to requests from both the public and private sector, the Institute has developed such guidelines.

And, by the way, we have copies here today of these reports that will be available at your convenience. And, of course, any time staff would need extra copies we would be glad to furnish them to your office.

Mr. BOLAND. All right.

TOXICITY

Mr. SMITH. Toxicity of building material. For several years, NIBS has been a leader in seeking a rational response to national concern over the issue of toxic emissions from building materials and furnishings during building fires.

VA HOSPITALS

Veterans Administration Hospital Start-Up and Operation. NIBS, for the Veterans Administration, is developing a set of model hospital user manuals that will guide architects and engineers in producing operations and maintenance manuals for new and renovated, especially renovated, VA facilities.

AFEIS

And another program that we've been active in this year is called AFEIS, which is a feasibility study of an Automated Facilities Engineering Information System. We are carrying this out for the Naval Facilities Engineering Command and the Army Corps of Engineers.

This activity responds to two important aspects of the Institute's authorizing legislation, to provide advice to federal agencies and to disseminate technical information to the building community.

ADVICE TO AGENCIES

In this regard, Mr. Chairman, you would find it interesting that in checking our records recently, we learned that we have advised in varying form and degree more than fifteen federal agencies. And we have a list of these agencies and extra copies available if you would like to have them in the report.

FIRE SAFETY

And then, of course, we have been very active in public protection and fire safety for the previous year, an item that is of major concern to our fire protection professionals throughout the country.

RESEARCH AGENDA

In the Building Technology Research Agendas, two NIBS programs during 1985 focused on providing building community input to the federal government's housing and building research activities. We think this has been an important effort.

CONSENSUS

And over on Page 13 of our testimony, as we talked about forums, the National Institute of Building Sciences relies for much of its work on the concept of consensus. Key issues of building science and technology are identified that are not adequately being addressed by other bodies.

Frequently, we have convened forums of expert and interested people from many disciplines who have differing views on such subjects. From each forum, a course of action may emerge for the Institute to pursue. And when appropriate, proceedings are published.

And, again I mentioned, we have other published references here that are available to you. I really believe this is one of the large needs that we see throughout both the building community and especially in the local code enforcement areas in the cities and municipalities of the country.

The idea of bringing the scientific people, the technical people and the academic people together in forums, and through this means, come up with recommendations that solve a lot of our problems and certainly will save money over a period of time for a particular home buyer or office person.

REHABILITATION GUIDELINES

This Subcommittee some years ago conceived the idea of the development and publication of guidelines for rehab of existing buildings as a means of economically upgrading and preserving the nation's housing stock.

The Institute prepared these guidelines for HUD, and they subsequently became the basis for a model rehab building code published last year by the Building Officials and Code Administrators International. I believe this was certainly a worthwhile effort. And I commend the Committee for having authorized us to do this.

TELEPHONE DIRECTORY

Another important directory we have out is *Whom to Call for What.* A preliminary version of the directory of significant building community organizations has been printed and has been distributed to our membership.

This is very helpful to the people back home in the local communities serving on local governmental committees, as well as some of the professional builders in the fact that through this particular directory they can find where answers could possibly be obtained.

Again, I thank the Subcommittee and the Chairman for the privilege of testifying before this body in behalf of the National Institute of Building Sciences.

In my judgment, this working partnership between the private sector and the federal government bodes well for the health and well being of everyone who lives or works, ships or dines, studies or workships, in buildings where we spend ninety percent of our time.

NEW INITIATIVES

Mr. Chairman, it's good to be with you, and we would certainly be pleased to answer any questions you might have. Just before we get into that, let me say that we have also a list here of new initiatives approved by the Board of Directors in its meeting of February the 20th and 21st, a few days ago. And we want to leave you copies of this.

We are getting into things like problem soils, or shifting soils under foundations that various cities are experiencing and the cost effectiveness in land development. Last year, in housing, for example, the greatest inflationary factor was the various codes, and some of them duplicative, to add to the cost of lots and housing production. And the third one is a report for understanding how building codes and standards are used in this country. And the fourth initiative relates to quality in construction.

These are four items that the NIBS Board as well as their consultant experts are working on at this time. We will also leave a copy of this for your record.

[The prepared statement of Herman J. Smith follows:]

Testimony
of
Herman J. Smith
Vice Chairman of the Board of Directors
of the
National Institute of Building Sciences
before the
Subcommittee on HUD and Independent Agencies Appropriations
United States House of Representatives

Washington, D.C.
February 27, 1986

Mr. Chairman, members of the Subcommittee, thank you for this opportunity to appear before the Subcommittee again and to report on the stewardship of the National Institute of Building Sciences (NIBS) of the funds entrusted to it. My name is Herman J. Smith and I am vice chairman of the Board of NIBS.

Accompanying me today is Gene C. Brewer, president of the Institute.

I am a recent past president of the National Association of Homebuilders (NAHB) and, as a professional builder, have long been involved in building and housing policy. I was chairman of the Texas Governor's Council on Housing for six years and was an officer of the NAHB for four years. I have also served as a local government elected official.

Last year, we at NIBS reported that we had qualified for the full amount of funds generated by the Trust Fund at the Treasury Department to be dispensed during fiscal 1985. This year, I am pleased to report that our efforts during 1985 again qualified for the maximum of $500,000 for distribution quarterly through fiscal 1986. The private sector continues to support the Institute with cash contributions and, of equal or perhaps greater importance, with thousands of man hours of volunteer expertise. This along with similar expertise from government provides a reservoir of knowledge that is vital to NIBS' credibility and performance. We are indeed grateful for that support.

As I mentioned last year, the concept of a balanced funding partnership has been well accepted in the public and private sectors of the building community. It has enabled the Institute to examine in depth such significant issues as toxic smoke in building fires and asbestos abatement in buildings. I will discuss these and other Institute programs later in my testimony.

The Institute and its membership have undertaken several new initiatives, including improving the quality of construction, monitoring the transfer by the Housing and Urban Development Department (HUD) of certain aspects of its Minimum Property Standards to the private sector; and studying unstable soils which plague both public and private construction in various parts of the country. In a word, Mr. Chairman, we are now able to look into current and emerging problems before a crisis, rather than react afterwards.

Finances

As I anticipated in my testimony before this body last year, NIBS' work on behalf of safer, better, and more cost effective buildings for the American people has benefited measurably from the matching funds program established by Congress in 1984. In fiscal 1985, the federal government matched, through a trust fund, each dollar up to $500,000 contributed during the year by the private sector.

This public-private partnership is in keeping with the spirit of the 1974 authorizing legislation (Public Law 93-983, Section 809), in that it enhances the credibility of our advice to "both the public and private sectors of the economy" and our standing as an "authoritative nationally recognized institution".

The Institute is working to broaden its membership and economic base and to expand its influence in building technology and science.

As noted in our financial statements, the three principal sources of NIBS income in 1985, in addition to the Trust Fund revenue, were contract services, almost $615,000; private contributions, $372,600; and member donations, $108,400. Total revenue was $1.66 million. Total expenses for 1985 were $1.28 million.

With this prepared testimony, we have included our operating budget for FY 1986. It is our policy to do mid-year budget reassessments. Some of the new initiatives to which I referred will be funded in that manner.

Mr. Chairman, I am pleased to report that the Institute has in the last year been able to turn with renewed vigor to pursuing its public service objectives, which are to improve the building regulatory environment and to encourage the introduction of new technology into the building process.

Let me cite some examples:

Quality in Construction

NIBS conducted two major conferences last year in Washington and Philadelphia on an important building topic -- quality in construction. This is a subject to which we believe the American people will be demanding increased attention. NIBS expects to devote increasing resources to it.

Speakers at the conferences noted that, increasingly, the lines of responsibility are becoming blurred among building designers, contractors, subcontractors and building owners or operators. Significant construction decisions these days sometimes are based, not on economics, artistry, or human safety, but on legal concerns and avoidance of liability.

We believe that the NIBS' consensus approach is particularly applicable to the task of causing the entire building community to focus on the issues connected with roles and responsiblities and achieving quality in building construction.

Building Seismic Safety Council (BSSC)

The BSSC, an organization sponsored by NIBS and operating under its auspices, has developed a document of significant potential importance to the safety of Americans in earthquakes.

On Jan. 21, four months after the Mexico City earthquake tragedy, the Federal Emergency Management Agency (FEMA) announced in a major press conference publication of NEHRP (National Earthquake Hazards Reduction Program) Recommended Provisions for the Development of Seismic Regulations for New Buildings. This landmark document was completed during FY 1985 by the BSSC.

The council gathered a number of authorities representing a broad cross section of expertise on building design for seismic safety. A number of design firms across the country were contracted to prepare dual design plans for specific buildings -- one set according to the proposed recommended provisions and another without them, to determine costs and benefits.

In addition, the proposed recommended provisions were subjected to rigorous balloting by the BSSC membership and revised to reflect comments received.

Sections of the country vary widely in their preparation for the various kinds of seismic hazards to which forecasts show they are likely to be subjected. Publication of the Recommended Provisions as a resource document should help to remedy that.

BSSC now has begun work on a similar long-range project for FEMA. That is to abate the potential seismic impact on water, sewer, power, transportation, and communication lines -- known as lifelines.

Building Thermal Envelope Coordinating Council (BTECC)

BTECC is another organization sponsored by NIBS and operating under Institute auspices. A building thermal envelope consists of a building's exterior walls, floors, and roofs and their windows, doors, vents, skylights and other apertures. Considerations of the building thermal envelope, therefore, are important, principally for energy conservation requirements and for ventilation to maintain a healthy indoor environment.

BTECC has been very active in FY 1985 in promoting understanding of elements of the building thermal envelope and their importance in energy conservation and in identifying research needs. BTECC and its committees hosted or co-hosted during FY 1985 productive workshops on moisture control in buildings, infiltration and ventilation, and insulation value of windows. Proceedings of these workshops are available.

Through integrated action of its seven Research Coordinating Committees, the Council is working toward its primary goal, completion by 1987 of a National Program Plan for building energy research.

Indoor Air Quality

Ironically, the building community's increasing success in tightening the building thermal envelope sometimes contributes to problems in another form -- that of indoor air quality. There has been continuing national concern over the quality of air inside buildings, including problems related to the minimal exchange of air within particularly tight buildings.

A NIBS project committee during FY 1985 identified and described standards, regulations, and other technical criteria directly related to indoor air quality. The committee thus created a data base of information obtained from model code organizations; standards writing bodies; professional societies and trade organizations; federal, state and local governments; governments of foreign countries; and existing data bases.

This fund of knowledge on indoor air quality is being made accessible to the building community in printed form and on micro-computer diskettes.

This year, the Institute will develop and conduct six indoor air quality workshops to present problem identification and solution technology to design professionals, building owners, and federal agencies. Radon, environmental tobacco smoke, and asbestos in buildings are the primary issues to be addressed.

Abatement of Asbestos in Buildings

As you and Members of the Subcommittee know, Mr. Chairman, various health issues have been linked with industrial exposure to airborne asbestos. The extensive presence of asbestos-containing materials in existing buildings has raised concern about potential exposure to asbestos in nonindustrial settings.

Last year, we mentioned a need for asbestos abatement guidelines. In response to requests from both the public and private sectors, the Institute has developed such guidelines.

While sprayed on insulation and trowelled on plaster containing asbestos can no longer be used, the Environmental Protection Administration estimates, based on surveys, that asbestos-containing materials can be found in about 31,000 schools and 733,000 other public and commercial buildings in this country.

I need to note, Mr. Chairman, that the mere presence of asbestos in a building does not necessarily endanger the health of the building's occupants. As long as non-friable asbestos-containing material in buildings remains in good condition and is not disturbed, exposure to asbestos' hazardous qualities is unlikely.

When building maintenance, repair, renovations, or other activities disturb asbestos-containing materials, or when they are somehow damaged, asbestos fibers may be released. At such times, through planned maintenance and repair programs or other forms of abatement, prudent building owners will take steps to correct the condition.

NIBS has investigated appropriate means for abating asbestos hazards. NIBS' publication, Model Guide Specifications for Asbestos Abatement in Buildings, to be published soon, will set out procedures for dealing with asbestos problems. The NIBS' Model Guide Specifications are designed primarily for use by qualified architects, engineers, industrial hygienists, building owners, and contractors to improve quality and consistency in asbestos abatement activities.

Toxicity of Building Materials in Combustion

For several years, NIBS has been a leader in seeking a rational response to national concern over the issue of toxic emissions from building materials and furnishings during building fires. This is a complicated issue about which misconceptions form readily.

During fiscal year 1985, NIBS twice addressed the issue before State of New York authorities who were considering regulations to require combustion toxicity testing of building materials. The Institute's comments were based on reports of two major forums that gathered data from a broad cross section of concerned people and organizations. The NIBS findings held that current tests for combustion toxicity are inadequate for regulatory purposes, and may even be counterproductive in addressing the real world problems of life safety in building fires.

NIBS has announced a series of national conferences, the first scheduled for mid-1986, to review such building materials fire safety elements as ignitability, heat release, flame spread, and generation rate of smoke release, as well as the status of current toxicity test developments; to consider voluntary guidelines for application by manufacturers on toxicity and other fire characteristics of building materials and furnishings; and to create a national awareness campaign on fire safety.

Because this is an issue under state and local purview, we have shared our views with state governors and mayors of major cities, and have invited them to take part or involve their staffs in these conferences.

Veterans Administration (VA) Hospital Start-up and Operation

For the VA, NIBS is developing a set of model Hospital User Manuals that will guide architects and engineers in producing operations and maintenance manuals for new and renovated VA facilities.

Earlier, NIBS studies demonstrated that such manuals can save VA substantial costs in facility start-up and long term operation and maintenance.

Of a four-volume set of model manuals, the first two are now in field testing and the last two are being drafted. A key part of the current work is cost-effectiveness evaluation of the model manuals.

Because clear guidance on the operation and maintenance of facilities is often a weak link in the building process, it appears that the approach we are taking with the VA can be applied with modification to other types of facilities both for the government and for the private sector.

AFEIS

NIBS is also engaged in a feasibility study of an Automated Facilities Engineering Information System (AFEIS), which we are carrying out for the Naval Facilities Engineering Command and the Army Corps of Engineers.

This project is expected to result in tremendous improvements in the ways Department of Defense building criteria -- such as guide specifications, design manuals, and reference documents -- are disseminated within the agencies and to design professionals.

AFEIS is expected to collect more than 100,000 pages of criteria on a single disc for access by a typical micro computer. In our judgment, there is potential here for an information collection and dissemination service of immense value to the private as well as the public sector.

This activity responds to two important aspects of the Institute's authorizing legislation: to provide advice to Federal agencies and to disseminate technical information to the building community.

In this regard, Mr. Chairman, you may find it interesting that in checking our records recently, we learned that we have advised in varying form and degree more than 15 federal agencies. I can provide a list of those agancies for the record should that be desired.

Formation of Wood Protection Council (WPC)

NIBS continues to assist the WPC, which also was formed under the sponsorship of NIBS and operates under NIBS auspices.

The Council is concerned with the safety, economics, and technology of protecting new and existing buildings from attack by wood destroying organisms, educating those concerned with protection against such organisms, and promoting research and advances in the field.

Already, the Council has developed a sampling protocol for termiticide residues in areas occupied by people. The protocol is expected to be published this year.

Public Protection and Fire Safety

NIBS has continued a series of meetings with the leadership of the National Fire Protection Association (NFPA) and the Council of American Building Officials (CABO) and its constituent organizations to enhance the protection of the public in matters of fire and life safety.

Among advances achieved in 1985 were these:

o A videotape presentation entitled "Fire Away" -- Building and Fire Department Cooperation, prepared by NFPA and widely distributed. This presentation covers cooperation between building code and fire officials through increased professionalism, the definition and scope of building and fire prevention codes, and the relationship between building and fire prevention codes.

o Seventeen joint fire investigations conducted since the discussions began in 1983, with an emphasis on combining technical strengths of both professions in collecting data on fire loss and developing corrective measures.

Building Technology Research Agendas

Two NIBS programs during 1985 focused on providing building community input to the federal government's housing and building research activities. The work was completed under contracts to the Department of Housing and Urban Development (HUD) and the National Bureau of Standards, with the guidance of a broadly representative committee.

On May 20, 1985, NIBS reported to HUD a summary of recommendations pertaining to its role in sponsoring and monitoring housing technology research. The primary program for HUD, the committee found, should be in collecting and disseminating information about the applications and use of technological advances in housing and land use. In addition, HUD should continue its effective program of demonstrating housing affordability, the committee said.

On May 31, 1985, NIBS presented to the National Bureau of Standards a summary of recommended research topics. The recommendations were drawn from a review of existing technical literature and a survey of the building community. They reflected current research needs that appeared to be within the purview of the NBS Centers for Building Technology and Fire Research.

The committee determined that "durability of materials" was the most frequently expressed concern of builders, designers and building owners. The committee's findings also urged further research in the areas of structural loading, moisture degradation, racking strength for panelized construction, fiber reinforced concrete panels and coatings, and fire safety retrofit.

Forums

The National Institute of Building Sciences relies for much of its work on the concept of consensus. Key issues of building science and technology are identified that are not adequately being addressed by other bodies. Frequently we convene forums of expert and interested people from many disciplines who have differing views on such issues. From each such forum a course of action may emerge for the Institute to pursue. When appropriate, proceedings are published.

In FY 1985, NIBS forums considered such issues as asbestos abatement, smoke toxicity, roles and responsibilities in construction, local building code enforcement, modular housing preemptive code, and Federal agency use of voluntary standards and building codes.

Rehabilitation Guidelines

This Subcommittee some years ago conceived the idea of the development and publication of guidelines for rehabilitation of existing buildings as a means of economically upgrading and preserving the nation's housing stock. The Subcommittee directed the Department of Housing and Urban Development to contract with NIBS for this work.

The Institute prepared these guidelines for HUD and they subsequently became the basis for a model rehabilitation building code, published last year by the Building Officials and Code Administrators International.

We gratefully acknowledge the Subcommittee's leadership on this project and are gratified that our work with HUD in this regard has achieved such a level of acceptance.

Mr. Chairman, the smaller things you do sometimes seem to attract an extra measure of appreciation and attention. This year, as part of our efforts to improve service to our members and expand our membership base, we published a 1986 Building Community Calendar of Events listing the major meetings of many of the key organizations that make up the U.S. building community. We have provided a copy for the members of the Subcommittee along with our prepared testimony. This has proved to be one of our most popular publications.

Also, we are developing a directory we call Whom to Call for What. A preliminary version of this directory of significant building community organizations has been published and is being distributed to our membership. We expect its distribution to attract additional entries.

Again, I thank the Subcommittee and the Chairman for the privilege of testifying before this body in behalf of the National Institute of Building Sciences.

The building community has responded to the opportunity provided by the Subcommittee in its support of NIBS. As I noted earlier, the private sector not only contributes funds to be matched from the Trust Fund, but also delivers more than a million dollars worth of volunteer services provided by Institute members and other participants.

In my judgment, this working partnership between the private sector and the federal government bodes well for the health and well being of everyone who lives or works, shops or dines, studies or worships -- in buildings, where we spend 90 percent of our time.

Mr. Chairman, we have attached to the copies of our prepared testimony some additional documents, including our audit of private contributions for fiscal year 1985 and our 1986 Operating Budget.

This concludes my prepared testimony and I will be honored to hear your comments and respond to any questions.

THERMAL ENVELOPE

Mr. **Boland**. Okay. Thank you very much. Let me ask you about the thermal envelope. How long have you been dealing with that particular area?

Mr. **Smith**. Gene, if you will, show him the booklet.

Mr. **Brewer**. Yes. The formation of this Building Thermal Envelope Committee came as a result of the National Program Plan, which was a document prepared by the Department of Energy.

There was great disagreement in the industry and the building community as to whether those objectives and goals were appropriate or not. So, all the folks got together from the private sector and the government and formed this committee under NIBS' auspices to identify areas that needed research and then to divide the research into two areas, what should public research do and what should private research do. Those ideas were then referred to the appropriate bodies.

In some cases, it was the Department of Energy, primarily because it was bringing this program plan up to date. And BTECC held significant meetings, as mentioned, some were hosted jointly with ASTM and other technical organizations.

The purpose of this group is to identify research and then monitor and follow up on it to see that it's done.

Mr. **Boland**. Well, weren't the developers trying to provide energy conservation? I can think of a building that was built in Hartford, Connecticut that's almost a thermal envelope. It not only concerns itself with energy conservation with respect to the exterior walls and roof and windows and doors and vents and other appurtenances, but also with the operations of elevators and energy using devices within the building itself.

And I was sort of impressed with the building, but it's relatively new. Who would be making inquiries of NIBS in this particular area?

Mr. **Smith**. Mr. Chairman, I have built some of these buildings over a period of years, and let me say that in the——

Mr. **Boland**. You say over a period of years. Really, how many years?

Mr. **Smith**. I've been in business thirty years. And I'm not talking about the envelope problems——

Mr. **Boland**. Yes.

Mr. **Smith**. But let me say that when the energy concerns escalated, especially in the southwest part of this country and that was true in your part of the country, we saw a tremendous energy conservation need that happened almost overnight. At that particular time, architects and engineers and developers and users of buildings wanted to get a consensus report of what this meant.

And, it has been very helpful for our people to go back and—these reports have been made available to the members which, of course, are the trade associations, the American Institute of Architects and others that are very concerned about this.

Mr. **Brewer**. Mr. Chairman, this started about four years ago. Massachusetts is an unusual state in this regard. It has led the way, and I would say—as a State—in this activity it's way ahead of the rest of the States.

BUDGET PLANNING

Mr. **Boland**. I'm not sure whether you are familiar with the building in Hartford, Connecticut owned by the Aetna Company. But its concept fits right in with what you are describing here.

Last year in the hearings, we discussed the Committee's desire to review NIBS' budget plans, and you provided for the record a detailed 1985 budget justification. Similar 1986 projections were made available just before the hearing this year. We are now reviewing, of course, 1987 budgets for the other agencies that come before this Committee.

Why are you running a year behind? Why aren't we looking at the 1987 NIBS' budget rather than 1986?

Mr. **Smith**. Well, I will answer it from the layman's point of view and then, Gene, you can add to this.

Of course, we are now in the process of going back to the same ones that contributed. As I mentioned earlier, various corporate entities, trade organizations and so forth, include us in their budgets for their next fiscal year, which does not always run concurrent with your fiscal year.

We believe we are in line with the previous year, but in all fairness some of the contributors have not come forth, or will not come forth until their particular time on our contribution schedule arrives.

We think we will reach again the matching budget this next fiscal year.

Mr. **Boland**. Well, we understand, of course, you have a unique funding arrangement, and it is difficult to really target exactly what funds will be available to you until you have that information.

Mr. **Brewer**. May I speak to that?

Mr. **Boland**. Yes, sir.

Mr. **Brewer**. When the trust fund was set up, Mr. Chairman, there was a common understanding with the Administration that NIBS would not be in the President's Budget, and we are not in the President's Budget.

We show up in the Budget Appendix.

Mr. **Boland**. Yes.

Mr. **Brewer**. And some of the money has been allocated from the trust fund and the Treasury sends it over when it is proven we qualify for it.

But we do very much want to account to you, as discussed last year with Mr. Green, how we are using the funds.

Mr. **Boland**. Sure. Exactly.

Mr. **Brewer**. And that's the purpose of bringing you today our fiscal year 1986 budget. Now, we are trying to move up on our calendar. We draw these ideas from all over the country, i.e. what we are going to do and what are the programs going to be. That takes a little while.

But this coming year, for fiscal year 1987, we should have our budget in front of the Board much earlier, and we can start off with a budget——

Mr. **Boland**. When you say much earlier now, what——

Mr. **Brewer**. We expect to have it to the Board by August, don't we, Brian?

Mr. **Landergan**. That's correct.

Mr. **Boland**. It isn't possible to get it earlier than that so that we can get a look at it earlier on?

Mr. **Brewer**. Well, we could give you something but it wouldn't be the kind of a budget you would want to bet your hat on, because we need to sort the figures out.

We can give round numbers of what we expect to do, but there is always something that interferes. So, this year we are trying to move that schedule up a little bit so that in August the Board will pass the budget for the following fiscal year.

BUDGET FORMAT

Mr. **Boland**. Let me ask whether you would detail a little bit more logically the income and expense figures in particular columns?

What we should get in next year's budget is the 1985 actual numbers for the agencies, and then the agencies' estimates provided for this year, and then the 1986 actuals and then your 1987 projections.

Is it possible for you to arrange it in that manner?

[The information follows:]

NATIONAL INSTITUTE OF BUILDING SCIENCES BUDGET SPREADSHEET

	FY 1984	FY 1985		FY 1986
		INCOME		
CATEGORY	ACTUAL EXPENSES	BUDGET	ACTUAL EXPENSES	BUDGET
Appropriations	$250,000	0	0	0
Grants/Contracts	792,892	$1,014,126	$614,587	$1,011,412
Membership	144,506	164,300	108,360	117,475
Donat. Unrestr.	359,609	390,000	330,657	300,000
Donat. Rest.	30,650	10,000	42,000	30,000
Annual Meeting	23,001	25,875	18,855	18,000
Publications	3,247	10,500	11,635	12,500
Seminars/Wkshops	10,060	6,500	14,354	15,350
Interest	9,028	26,250	21,270	15,000
Mscl.	2,379	1,000	1,487	500
Trust Fund	0	500,000	500,000	500,000
Total	1,625,372	2,178,551	1,661,360	2,020,236
		EXPENSES		
Pro. Salaries	$317,699	$395,902	$353,614	$404,314
Clerical Sal.	112,923	109,826	102,900	132,321
P.T. Clerical	3,533	2,400	14,604	15,000
Total Salaries	434,155	508,128	471,118	551,635
Total Fringes	117,563	136,805	134,092	165,353
Consultants	54,767	74,075	55,308	231,265
Board Fees	2,190	12,000	5,250	13,600
Travel Exp.	113,077	299,700	99,028	160,224
Commun. Exp.	43,445	52,007	47,370	57,784
Supp. & Serv.	125,390	183,993	163,183	158,065
Subcontr. Exp.	296,333	314,198	151,050	150,000
Occupancy Exp.	148,331	140,000	117,034	103,306
Other Exp.	144,659	48,011	35,830	26,403
Total	1,479,910	1,768,917	1,279,263	1,617,636

FUND RAISING

Mr. **Boland**. Let me say that I think you deserve some congratulations for your fund raising. Last year, your reports have indicated $522,000 in private sector funds which will trigger the release of the full $500,000 in federal subsidies in 1986.

And I think you indicated that $108,000 of that came from membership dues; is that correct?

Mr. **Brewer**. Yes.

Mr. **Smith**. Yes.

Mr. **Boland**. The projection in last years's 1985 budget for membership income was $164,000.

Why did you receive so much less than expected?

Mr. **Brewer**. We lost some memberships. We found out that the cost of servicing a member was considerably higher than the $50 we were charging; it was something in the $80 range. So, we made it our policy to raise those incoming fees to $100, knowing that we would lose some people.

Mr. **Boland**. How many members do you have at NIBS now?

Mr. **Brewer**. Excuse me. Brian, six hundred and some?

Mr. **Landergan**. Just short of six hundred.

Mr. **Brewer**. Six hundred. Which is the hard core, the corporate world and the larger firms, they don't go away. But there is a drifting in and out, depending on the issues.

And I liken raising funds for NIBS, which I do, to raising funds for your church. You lose some members, and you have to get some new ones every year.

So, it's pretty hard to predict what we are going to get. But we know we have to work on that.

Mr. **Boland**. How much have you actually raised so far in 1986 from private contributions, dues and fees?

If you don't have it, you can supply it for the record.

Mr. **Landergan**. Okay. We will do that.

[The information follows:]

FY 1986 donations, dues and fees received by NIBS as of 1/31/86

Donations	$127,355
Membership dues	18,050
Seminar & meeting fees	13,543

Mr. **Boland**. You would probably know off the top of your head whether or not this was behind last year's private collections. It is?

Mr. **Brewer**. It has been behind schedule but it's coming in pretty much per expectation now.

Mr. **Boland**. Will you meet the $500,000 threshold this year to trigger the full release of the federal funding?

Mr. **Brewer**. We are going to work hard to do that, I can't guarantee it.

Mr. **Smith**. That is our intention.

Mr. **Boland**. Would you have any objection to listing in the record last year's private contributions?

Mr. **Brewer**. I wouldn't, but the people who give it to me might.

Mr. **Boland**. Well, if you run into that kind of problem, why——

CONTRACT INCOME

Mr. **Brewer**. I don't know whether I would or not. But——

Mr. **Boland**. That will be fine. You won't have to. Last year it was projected that in 1985, income from grants would amount to a $1,014,000. But the actual grant income was only $614,000.

What accounts for that $400,000 decrease?

Mr. **Landergan**. At least part of it, sir, is in the building seismic safety program where they had anticipated doing about $600,000 and only about $300,000 worth of work was accomplished, because work on one program was deferred until this year.

Mr. **Boland**. Now, the 1987 estimate is $1,011,411. Is that realistic?

Mr. **Landergan**. Yes, sir, that's reasonable.

Mr. **Boland**. And how much of that will come from FEMA?

Mr. **Landergan**. I can tell you that in a moment. About $450,000 to $550,000—just about a half million dollars.

SALARIES

Mr. **Boland**. Salaries were projected at over $500,000 for 1985, but the actual amount came in at only $401,000.

Why did you have a twenty percent decrease?

Mr. **Landergan**. Because we cut the staff in that year, and we didn't add staff that we thought we were going to add.

Mr. **Boland**. How many people do you have aboard now?

Mr. **Landergan**. Fourteen currently.

Mr. **Smith**. By the way, this was discussed last year, Mr. Chairman, with this Committee and we were very cautious on expansion as well as increases.

So, we took the conservative route.

Mr. **Boland**. Is the Vice Presidency for Planning still vacant?

Mr. **Landergan**. Yes.

Mr. **Boland**. That is still vacant?

Mr. **Brewer**. We are interviewing for that.

Mr. **Boland**. You are going to refill the position, I take it?

Mr. **Brewer**. Oh, yes.

Mr. **Boland**. The FTEs are projected to increase from 14 to 16 in 1986. But salary funds go from the 1985 actual level of $401,000 to a projected level of $552,000.

That's an increase of thirty-two percent. Why this increase?

Mr. **Landergan**. My 1986 budget shows $552,000, and the 1985 actual was $470,000. Originally in the budget estimate, we cranked in a six percent increase, but that wouldn't account for twenty percent.

We added two persons. Can we answer that for the record?

Mr. **Boland**. Okay.

[The information follows:]

FY 1985 - FY 1986

SALARY COMPARISON

FY 1985 ACTUAL		FY 1986 Proposed
$353,614	Professional	$404,300
102,899	Clerical	132,300
14,063	P.T. Clerical	15,000
$470,576		$551,600*
PROFESSIONALS		PROFESSIONALS
Five full time with two engaged three-quarter time and one part time		Eight full time positions one of which is new and two which were upgraded to full time
CLERICAL		CLERICAL
Six full time plus two temporary		Seven full time one of which is new
Part Time Clerical		Part Time Clerical
Receptionists		Receptionist
		*Includes approximately $30,000 (5.4%) for possible merit increases

Mr. BREWER. May I comment, Mr. Chairman, if I may, that with the work load that we have today, we are going to have to get some additional technical help just to get the work done.

But those costs are usually ascribed to the project. But they do show up in the payroll nonetheless.

Mr. BOLAND. And last year you indicated for 1985, the cost of living increase would be somewhere between three and four percent.

Were those salary increases made?

Mr. LANDERGAN. On the anniversary date. During the last year, staff received a three and one-half percent increase.

Mr. BOLAND. The internal NIBS' budget for '86 mentioned merit increases averaging six percent. That seems a little high.

Mr. LANDERGAN. Well, we took that to the Board, sir, and the Board turned us down on that and said to go strictly on merit increases at whatever the level is, but not six percent across the board.

Mr. BOLAND. And will those merit increases come on top of the cost of living increases, or does that include the cost of living as well?

Mr. LANDERGAN. That would include the cost of living.

Mr. BREWER. We've really decided, Mr. Chairman, to drop the cost of living data idea and deal on a merit basis if we can.

GRAMM-RUDMAN

Mr. BOLAND. Is NIBS subjected to Gramm-Rudman?

Mr. BREWER. Yes. We have been tagged for 4.3 percent. Some argue that it shouldn't be, and when they spoke to me about it I said: "We want to help out. we want to be treated like you treat other funds of our nature."

Mr. BOLAND. All right. Let me ask you about some asbestos work. We are delighted you are in here to discuss this program, because this committee has over the last few years shown some interest and influence in this area with a finer sense of logic and reason than others across the country and around the Hill.

ASBESTOS

And we want to commend you on your taking the lead in developing a set of model specifications for asbestos work.

Is that project on target, or is it well behind schedule?

Mr. BREWER. It's behind, because we had a tremendous amount of technical work to do which you will find if you thumb through this report. We had come difficulty with our contractor who wasn't delivering on time.

And we had a Hobson's choice. We could fire him and start over again, or we exhaust our patience and go through with it, because he's excellent. And we finally got the material and it's just about ready to go out for final review. We should have that on the streets in about 30 days. We've had calls from as far away as Australia for this.

Mr. BOLAND. Does this document include specifications to deal with the asbestos problem and its removal?

Mr. **Brewer**. Yes. This is how you deal with asbestos in buildings. It doesn't necessarily mean removal. It fact, it's our judgment that's the last thing you want to do. You want to treat asbestos any other way you can. If it's serious enough, and after testing, then you remove. And the specifications and guides are very specific on how to do that and be safe.

Mr. **Boland**. When do you think you will have final specifications with respect to removal of asbestos?

Mr. **Brewer**. That's all in here.

Mr. **Boland**. That's all in there?

Mr. **Brewer**. Maintenance and repair, encapsulation, enclosure, and finally removal or demolition.

And the demolition part, of course, is the most serious because it does expose more people in a more serious way. And our general advice would be to make that the last thing to do. First try to correct the problem any other way first.

Mr. **Boland**. It's our understanding that EPA and VA and some of the other agencies that are Steering Committee members are disappointed with NIBS' performance in this particular area.

Mr. **Brewer**. We have taken about 2 months longer than we thought and for several reasons. There is an extreme amount of liability connected with this.

The architects, the engineers and the contractors have no professional liability, none whatsoever. So we are on the line on this, and the Board recognized that we could well be sued.

But the Federal agencies came to us, the private sector came to us, and said: "We need such a document." And it has taken a little bit longer than we wanted but it's going to be state-of-the-art and it's the only document like it.

And we too are sorry it's a little bit late. But we thought we had better do the job right rather than do a rush job.

ASBESTOS SPECIFICATIONS

Mr. **Boland**. Let me ask whether or not you can give the Committee a firm date on final asbestos specifications?

Mr. **Brewer**. Well, we are heading—we are trying for thirty days but we are a group of volunteers, and can't force anybody to do anything.

But we have this well along. And we think we are going to get some comments back on this version, but we think we have taken care of most concerns, but I don't know.

Mr. **Smith**. I need to make a statement here, representing the Board. Let me say, referring to the agencies that are asking these questions, if they've got a way to expedite this, and if they've got all the answers to these unknown questions, we will be glad to speed up.

But you must remember, this is one of the most complicated efforts that we have undertaken. Secondly, if you look at the size of our budget, especially the size of the budget pertaining to the subject, you will find that you got more bang to the buck here, and so do these other agencies, than anything forthcoming in asbestos in many years.

And I really believe in thirty to sixty days they will have a lot of answers that they otherwise do not have.

Mr. BOLAND. Yes, but you know, Herman, we've been into this area now for the last few years and within the building industry they are looking for advice and counsel on it. There's an awful lot of scholarship out there now in this area——

Mr. SMITH. Yes, sir.

Mr. BOLAND. On how to handle asbestos in buildings and the dangers of not removing it properly. We have seen some poor results in some communities, especially in schools that tried removing it before the contractors knew how to do it—just going in there and ripping it our willy-nilly.

Mr. SMITH. That's a point. That's a great point. The scholarship has come forward now with a lot of recommendations.

In fact, these recommendations have changed, some because of the legalities in the last few months. The one litigation in Maynesfield, for example, is tremendous.

And I really believe now you are finding the scholars coming to a consensus. And one of the things that we cannot do is force the scholars to come to a consensus before they are ready.

And I really believe that was one of the problems our contractor was having. But I do believe you now have this consensus about to come forward. And I think you are going to be happy with the results.

Mr. BOLAND. What about the draft report? The draft was circulated and a consensus was reached by the Steering Committee members in September. Five months have already passed, and that prompts some questions.

Mr. BREWER. We analyzed that consensus. We didn't think the review was adequate. So we broadened it to inlcude about sixty parties, rather than the fifteen or twenty on the steering committee.

This is a very serious subject. And we wanted to come out with the blessing of a wide variety of the experts. And that's why it took so long.

Mr. SMITH. Plus the fact that our legal counsel had to look at some aspect of this because, as you know, as I mentioned earlier, the large amount of litigation. We were concerned about some of the recommendations.

Mr. BOLAND. No doubt about it. You——

Mr. BREWER. Yes. So, we don't wander off into the woods.

AUDITS

Mr. BOLAND. What sort of a function does your auditor offer? You presented us with a statement, the report of Certified Public Accountants, Arthur Young.

What sort of a function does Arthur Young play in auditing NIBS' books?

Mr. SMITH. Would you speak to that, Brian, please?

Mr. LANDERGAN. Yes, sir. They are outside auditors that come in, at our request, to determine the level of accounts that we have and the income and outgo from those accounts. Just to confirm the financial statements that we prepare within house.

Mr. **Boland**. How often are the audits conducted?

Mr. **Landergan**. Once a year.

Mr. **Brewer**. Mr. Chairman, we also have a Board Audit Committee that receives the reports from our independent auditors.

Mr. **Boland**. Now, with respect to the annual reports, the Committee has reviewed several of the annual reports to the President, I am puzzled because prior year income and expenses figures seem to keep changing.

How is it possible that the figures keep changing, even after the books have been closed for the year?

Mr. **Landergan**. No, sir. The 1983 numbers were the first audit by this group. But each year, we used to report a column that was unaudited and now we are publishing the report with audited numbers.

Mr. **Brewer**. The auditor comes in, Mr. Chairman, frequently during the year just to touch base on things, so that by the time the year ends they can now quickly assemble a final audit.

So, on the figures that we gave you previously, the current year had not been audited because of the delay in getting the numbers together.

Mr. **Landergan**. Those numbers would change.

QUARTERLY FINANCIAL REPORTS

Mr. **Boland**. Now, you put out quarterly financial reports as well as an annual report. There seems to be some disagreement in the figures, because the 1985 fourth quarterly report shows the fund balance at $558,000, but the yearly report of the same date, September 30, 1985, shows $536,000. Not much of a difference, but why don't they agree?

Mr. **Landergan**. They wouldn't agree, because our audit adjustments are made and in our accounting system we have two basic accounts. We have the NIBS proper and the NIBS including the BSSC. The BSSC account in that quarterly report that was probably not part of that total.

The auditor, however, uses both the BSSC and the other accounts. The reason that we don't report to the Board that BSSC account is because it has no impact or receives no funds from the trust fund. It's strictly a FEMA contract operation.

NOTES PAYABLE

Mr. **Boland**. And can you clarify two figures on notes payable? The 1984 statement shows $100,000 notes payable as a liability of NIBS. The first quarterly report for 1985 indicates that NIBS paid off a note, and the amount given is $120,000.

Is it the same note?

Mr. **Landergan**. I'm not aware of $120,000. The $100,000 I'm aware of. I don't recall the $120,000.

Mr. **Boland**. Well, the first quarterly report of 1985 indicated that NIBS paid off a note. The amount given was $120,000.

Maybe you can explain that for the record, whether or not those figures are correct.

[The information follows:]

NOTES PAYABLE

A note payable in the amount of $100,000 as reported in the audit statement was retired in the first quarter of Fiscal Year 1985. At the same time, a long standing account payable of $20,000 was paid.

Mr. **BOLAND**. 1985, I think you would agree, was an excellent year for NIBS' financial situation. Current assets rose about $200,000. The fund balance more than tripled. And income exceeded expenses by $382,000.

Do you expect that trend to continue in 1986?

Mr. **LANDERGAN**. I would think not at that rate.

Mr. **BREWER**. Probably not to that extent, because we are putting funds in these new initiatives as seed money, and I can't give you a hard number on that until we get the work done. But, some of that fund balance will be used to seed these new projects that we have noted here.

Mr. **BOLAND**. I suppose if the surpluses continue, it would be hard to justify the need for the $500,000 in federal funding.

Mr. **BREWER**. We would like to say that that's going to happen, but I don't think its going to.

Mr. **BOLAND**. All right. In 1985 and again in 1986, the NIBS Board designated $100,000 to be set aside for operating reserves.

What particular purpose does that serve?

Mr. **BREWER**. I think it is just a control factor, that's a set aside, and only the Board can use those funds. That's just prudence, good management.

Mr. **BOLAND**. Maybe you can build up that reserve, of course, and finally arrive at a point that they call a sunset?

Mr. **SMITH**. Mr. Chairman, as he mentioned, that's not our intention. I was looking at the audit report and I believe I saw a $100,000 loan, not a $120,000 loan in the audit report, that was necessary to finish the fiscal year back in 1983.

And so consequently the Board looks at this over an annual basis, and naturally we would hope to end the year without having to borrow money for this purpose. And I believe that the reserve would not be necessitated beyond $100,000.

FEMA/BSSC

Mr. **BOLAND**. All right. Another agency that comes under the jurisdiction of this particular Subcommittee is FEMA, and they are one of NIBS' largest customers with the Building Seismic Safety Council research effort.

How much money comes from FEMA for that activity each year?

Mr. **BREWER**. Well, it has been up and down. I think you have the figure in the budget this year, Brian.

But there has been quite a bit of activity in the past two years and again in this fiscal year. These reports happen to be the kind that BSSC turns out. And there is more to come on these. We are working on life lines. These represent the best state-of-the-art there is in the country, because the experts from California to New England have taken part.

And this again was a voluntary activity. So, as far as the Government dollar is concerned, this is not only good work, but the most important thing about this is that the program has the backing of the building community.

Mr. **Boland**. FEMA indicates a 59-percent factor that NIBS deducts for each grant for overhead costs which, of course, leads to the asumption that only 41 cents of every dollar gets passed on by NIBS to the Building Seismic Safety Council research effort.

Mr. **Landergan**. That's partially correct.

Mr. **Boland**. But isn't that a rather hefty overhead? Isn't 59 percent a——

Mr. **Landergan**. No, sir. In fact, it's almost laughably low. Every contractor that deals with the Government runs a number that is closer to 100 percent.

And, in fact, we have DCAA, the Defense Contract Audit Agency auditing our 1982, 1983, 1984, and 1985 overhead rates, and it appears that they are closer to 89 or 95.

Mr. **Brewer**. Excuse me. There is a misunderstanding, Mr. Chairman.

It's 59 percent of NIBS overhead; it turns out to be somewhere between 20 and 25 percent of the dollars you are talking about. As far as FEMA is concerned and other agencies, NIBS is a bargain because the average percentage is low.

One of the reasons the agencies have come to deal with NIBS is that we bring them the expertise and we don't charge them an arm and a leg to get the job done.

As a matter of fact, we do not make money. We do not show a margin on this work. And that's why we've got to do something about this low overhead to recapture our costs.

Mr. **Boland**. All right. Now, would you provide for the record details of the use of the FEMA Seismic Research funds in 1984 and 1985, and show the disposition of all the funds, how much went for NIBS' overhead, for salaries and other costs, for the BSSC expenses, and for actual research done?

Mr. **Brewer**. Yes, sir.

[Information to be furnished follows:]

National Institute of
BUILDING SCIENCES

1015 Fifteenth Street, N.W.
Suite 700
Washington, D.C. 20005
(202) 347-5710

FEMA FUNDING

BUILDING SEISMIC SAFETY COUNCIL

FISCAL YEARS 1984 - 1985

INCOME

	FY 1984	FY 1985
Contract Income	$526,294	$278,635

EXPENSES

	FY 1984	FY 1985
Professional Salaries	$45,727	$48,908
Clerical Salaries	13,523	17,545
Part time Clerical	1,798	2,816
Total Salaries	61,048	69,269
Fringes	18,981	23,923
Consultants	8,295	33,923
Travel Total	59,676	47,447
Communications	3,752	6,434
Supplies & Services	5,706	18,519
Subcontractors	276,849	0
Mscl	0	69
Overhead	91,987	79,051
	$526,294	$278,635

Overhead as percent of contract

FY 1984 $91,987 ÷ $526,294 = 0.1748 x 100 = 17.48%
FY 1985 $79,051 ÷ $278,635 = 0.2837 x 100 = 28.37%

Total both years $171,038 ÷ $807,929 = 0.2117 x 100 = 21.17%

Mr. **Boland**. In 1985, one BSSC contract apparently went upaid for several months because of some shortage of funds.

What was the problem there?

Mr. **Brewer**. This was probably about 2 or 3 years ago?

Mr. **Boland**. It was in 1984.

Mr. **Brewer**. There was a cessation of activities at FEMA because of budget problems. And we were concerned, because we needed to hold this group of volunteers together and the activity just went down, part of which was OMB, part of it was internal at FEMA getting their work together.

And I think a disagreement perhaps in the Administration as to what the agenda ought to be. But we have reached a meeting of the minds between the building community, the experts and FEMA about what ought to be done. And we are right on track.

Mr. **Boland**. Mr. Green.

TRUST FUND

Mr. **Green**. As I understand the trust fund arrangement, you have $5,000,000 drawing 10 percent interest, so you get $500,000 a year.

Mr. **Brewer**. Up to that if we earn it.

Mr. **Green**. If you match it?

Mr. **Brewer**. Yes.

Mr. **Green**. So that you are getting reduced by Gramm-Rudman, and how does that work?

Mr. **Brewer**. It's 4.3 percent of $500,000.

Mr. **Green**. My other question was whether that's a locked rate or if interest rates should continue to fall, are you affected?

Mr. **Brewer**. No. When the Treasury considered all of this, there was a lot of discussion about whether to go with the market which was at that time around thirteen or fourteen percent. And the Treasury recommended that it invest those funds in ten percent paper, solid, so that you didn't have the problem of up or down, or what date was it, whether you applied it upwards or down, which would have been a hairy exercise.

So, this is good in paper. It comes to ten percent.

Mr. **Green**. Thank you, Mr. Chairman.

Mr. **Boland**. Well, thank you very much, Mr. Smith. Thank you, Mr. Brewer; and thank you, Mr. Landergan. We are glad to have you.

Give us a little bit more detail now next year on the budget areas which we have suggested.

REPORTS

Mr. **Brewer**. This is the kind of work that has to be done to make something function in the real world. This is more than a scientific document but all the scientific backup is in there.

Here is Guidelines for Preparing Code Changes. These are resources documents to be used by cities and states and whomever wants to strengthen their buildings.

And here is the Potential Impact on the Building Regulatory System. You are getting into the politics of things here. The technical work we do doesn't do any good unless it gets put into place, wherever—in the west, of course, primarily, but Memphis, Tennessee is now a heavy zone; Boston is being looked at; Cleveland had an earthquake the other day.

So, you have to stengthen the buildings in terms of severity and frequency of earthquakes, and that's where the judgment factor comes in.

Mr. **Boland**. Have you ever been in the Pension Building since it has been restored to the National Building Museum?

Mr. **Brewer**. Yes, yes.

Mr. **Boland**. That's a great building.

Mr. **Brewer**. With the proper amount of tender loving care it has really come alive. In fact, we go there frequently, and we are planning to have our annual meeting in the——

Mr. **Boland**. I think that will be a good one. That's a good place to have it.

Mr. **Brewer**. And the subject is going to be "Renovation of Buildings." That is big business today.

The renovation of buildings, both residential and commercial, are as big as the new market.

Mr. **Smith**. Let me tell you, a large problem across this country is in the rehabs of our public housing. If you remember, OMB saw fit to lower the cost of rehabilitation to the local housing authorities effective in the beginning of this Administration.

We are seeing boarded-up buildings in cities today that need their buildings rehabed, owned by the city or the public housing agencies of the city. Rehab is going to be a large program.

There is a large need as we look at the reduction of the subsidy programs. And the subject of rehab that I alluded to in the testimony is going to be most interesting to every city in the country and especially to the organizations that are trying to house the poor, where they have the units but they are not usable at the present time.

Mr. **Boland**. Well, that's true and particularly up in the northeast. My city is celebrating its 350th anniversary. That goes back a long ways. And they have rehabed a number of the buildings in that community over the past years, and even some of the public housing units that run back maybe thirty years I guess. Even those have been subjected to rehab now.

Mr. **Smith**. Some of the paper work necessary in changing the regs within HUD need to be forthcoming in order for the public housing authorities on a local level to accomplish some of these things that need to be done.

Mr. **Boland**. Well, thank you very much.

WITNESSES

	Page
Adams, Maj. Gen. A.J	1
Armstrong, S.B	567
Badger, Col. F.C	1
Banister, G.H	335
Benton, J.F	263
Brewer, G.C	745
Casey, William	69
Costanzo, Ray	35
Dawson, C.G	567
Defiore, Leonard	567
Dunn, Lt. Col. Kenneth	35
Early, W.B	529
Fairbanks, Shannon	69
Fenner, R.M	313
Gray, E.J	69
Grigsby, M.A	69
Haas, S.G.F., III	69
Hill, M.F	263
Hopkins, J.T	381
Hovde, D.I	69
Jepsen, Hon. R.W	313
Knauer, V.H	381
Knight, George	421
Landergan, B.R	745
Levinson, D.R	567
Marvin, F.R	381
McCabe, C.J	421
Moran, Col. C.L	1
Murr, Tom	567
Nasif, T.N	529
Nichols, Nathan	421
Passarelli, Francis	69
Peterson, K.A	263
Petrocci, R.L	69
Pettis, Ray	35
Pittman, D.M	69
Poling, W.C	313
Quillian, H.W	69
Rafuse, R.W., Jr	263
Riley, D.M	313
Ryan, Col. W.E., Jr	1
Sahadi, Robert	69
Scanlon, Terrence	567

Page
Shaw, M.B 263
Smith, H.J 745
Smith, Julius 35
Smith, Rory 35
Statler, Stuart 567
Steeves, R.F 381
Turnage, T.K 335
Vigna, A.A 69
Whiteside, W.A 421
Withers, L.A 69

INDEX

Page

American Battle Monuments Commission ... 1
  Budget changes of individual cemeteries ... 11, 13
  Deferred projects ... 5, 9
  Gramm-Rudman ... 10
  Home leave ... 13
  Improvement projects, fiscal 1986 ... 13
  Improvement projects, fiscal 1987 ... 13, 14
  Korean War Memorial ... 11
  Political instability abroad ... 10
  Reprogramming due to dollar appreciation ... 4
  Sequestration effects ... 2
  Statement of General Adams ... 1, 2
  Supplemental appropriation need ... 3

Cemeterial Expenses, Department of the Army ... 35
  Budget request ... 42
  Gramm-Rudman sequestration ... 42
  Maintenance contracts ... 48
  Master plan ... 46
  Nonfuneral ceremonies ... 44
  Nonfuneral expenses ... 45
  Official reception and representation expenses ... 44
  Opening remarks ... 35
  Parking facility ... 43
  Security problems ... 49
  Vehicles ... 45
  Visitors' center ... 42
  Visitors' center rendering ... 50

Consumer Information Center ... 529
  Average grade ... 541
  Budget justification ... 545
  Catalogs:
    Printing of ... 537
    Free titles in ... 538
  Consumer's Resource Handbook ... 543
  Fifty-cent program ... 539
  GPO rate increases ... 542
  Gramm-Rudman reductions ... 530
  Opening statement ... 529
  Other income ... 542
  Publications:
    Average sales price ... 539

Page

Consumer Information Center—Continued
  Publications—Continued
    Number distributed ... 540
  Revenues from user fees ... 541
  Special marketing projects ... 537
  Use of CIC fund ... 544

Consumer Product Safety Commission ... 567
  Agency:
    Change status ... 595
    Effectiveness ... 596
    Location of current facility ... 613
  All terrain vehicles ... 598
    Regulation of ... 601
    Resources utilized ... 599
  Budget:
    Additional views on ... 593
    Hearing attendance ... 593
    Request ... 594
  Campaigns: Information and education ... 612
  Cigarette Study:
    Funding of ... 611
    Safety Act ... 610
  Consolidation ... 610, 612
    Headquarters ... 576
    Costs associated with move ... 610
  DEHP ... 603
  Gramm-Rudman reductions ... 609
  Hazards:
    Fire and thermal burn ... 607
    Voluntary reductions ... 605
  Industry improvement ... 606
  Methylene chloride ... 599
    Proposed regulations ... 600
  NEISS ... 601
    Alternate view ... 603
    Pilot results ... 602
  Opening remarks ... 567
  Personnel ... 609
    Reductions ... 605
  Priorities:
    Funding ... 580
    Lower projects ... 604
  Regulations:
    Mandatory ... 597
    Proposed ... 600
  State action ... 607
  Summarized statement ... 567
  Training programs ... 605
  Upholstered furniture ... 606

Federal Home Loan Bank Board ... 69
  Accountability of bank system to the Board ... 120
  Administration expense ... 121, 122

785

Page

Federal Home Loan Bank Board—Continued
- Budget:
  - Effects of reductions 126
  - FY 1986 amendments 127
  - Reprogramming of funds 126
  - Summary of request 109
  - Supplemental request 127
- Chairman Gray's statement 73, 99
- Closing remarks 131, 132
- Equal employment opportunity 130, 131
- Examination:
  - Examiner salary 108
  - Field transition expenses 130
  - Increased examiner work force 108
  - Reform 70, 71
  - Supervision of examiners 120, 121
  - Washington Office of Examinations and Supervision 119, 120
- Federal Asset Disposition Association (FADA):
  - FADA 115, 116
  - Financial obligations 116
- Federal Savings and Loan Insurance Corporation (FSLIC):
  - Assistance agreements 113
  - Borrowing authorities 113, 114
  - Cost of cases to 114
  - Demands on the 110
  - Insurance reserves 112, 113
  - Supplemental insurance premium 113
- Future progress 71, 72
- Justification for 1987 estimates 136, 262
- Management Consignment Program 114, 115
- Neighborhood reinvestment funding 127
- New enforcement office 129, 130
- Office expenses 128, 129
- Problems of rapid growth in assets 117, 119
- Questions submitted for the record by Congressman Jerry Lewis 132, 133
- Questions submitted for the record by Congresswoman Lindy Boggs 133, 135
- Staff expenses 128, 129
- Supervisory directives 123, 125
- Thrifts:
  - Insolvencies 111, 112
  - Insolvencies by geographic region 117
  - State of the industry 109, 110
  - Troubled institutions 110, 111
- Travel expenses 128
- Treasury assistant 121
- Witness biographies 100, 107

National Credit Union Administration 313
- Administration expense limitation 317
- Administration expense obligations 319
- Deposit deregulation 319
- Examination cycle 319
- Expansion of investment authority 319
- Fiscal year request 313

786

Page

National Credit Union Administration—Continued

- Gramm-Rudman impact 317
- Loan demand and asset growth 318
- Loans to investment ratio 318
- Negative outlay trends 318

National Institute of Building Sciences 745

- Budget:
  - Format 768
  - Planning 776
  - Spreadsheet 769
- Contract income 771
- Councils:
  - Building Seismic Safety Council (BSSC) 746
  - Building Seismic Safety Council reports 781
  - Building Thermal Envelope Coordinating Council 746, 766
  - FEMA/BSSC 777
  - FEMA funding table 779
- Expenses:
  - Notes payable 776
  - Notes payable clarifying statement 777
  - Salaries 771
  - Salaries comparison table 772
- Financial reports:
  - Audits 775
  - Quarterly reports 776
- Initiatives and issues:
  - Advice to agencies 747
  - Fire safety 747
  - New initiatives 748
  - Telephone directory 748
- Institute operations:
  - Annual meeting theme 781
  - Consensus 747
  - Membership 746
- Prepared statement 750
- Projects:
  - Asbestos 746, 773
  - Asbestos specifications 774
  - Automated facilities engineering information system 747
  - Rehabilitation guidelines 748
  - Research agenda 747
  - Toxicity 746
  - Veterans' Administration hospital manuals 747
- Trust Fund:
  - Fund raising 770
  - Gramm-Rudman 773, 780
  - Operation 780
  - Private sector support 745
  - Table of donations, dues and fees 770

Neighborhood Reinvestment Corporation 421

- Assisted housing program 436, 437
- Budget justification, fiscal year 1987 452

Page

Neighborhood Reinvestment Corporation—Continued
- Community Development Block Grants, use of 438
- Employee cost-of-living/merit increases 436
- Funding request:
  - Fiscal year 1987 422
  - Enhanced level 440 6
- Insurance industry support 444
- Leadership conference 445
- Leveraging and reinvestment 422
- Mutual housing demonstrations, status of 431, 432, 439
- Neighborhood housing services programs:
  - Programmatic supplements 441
  - Population served 422
- Neighborhood self-reliance 443
- Program tools, fiscal year 1986 442
- Reduction of funds in fiscal year 1987, effects of 422, 430, 433, 441
- Staff:
  - Levels 422
  - Reductions 422
- Urban Development Action Grants, use of 439
- Whiteside, William A., statement of 424

Office of Consumer Affairs 381
- Accomplishments 382
- Adequacy of future staffing levels 399
- Administration resource decision—implication 384
- Alternative budget level—merits 391
- Budget justification 401
- Closing remarks 399
- Consumer information center 389
- Consumer's Resource Handbook:
  - 1987 plans 388
  - Staffing requirements 391
- Financial services activities 392
- Hypothermia 398
- Introductory remarks 381
- National Consumers Week 389
- OMB request 384
- Opening statement:
  - Full text 384
  - Summary 381
- Personnel grades 395
- Plans for 1987 382
- Position and FTE requested 395
- Reduction-in-force 394
- Reductions prior to 1987 387
- Regulatory review activities 390
- Reprogramming 394
- Third-party dispute resolution 397
- Travel 396
- Unemployed persons 399

Page
Office of Revenue Sharing 263
  Appropriation table--payments to local government fiscal assistance trust fund 275
  Attrition 274
  Average employment 275
  Civil Rights backlog 275
  Closing remarks 276
  Federal/State relations 272
  FY 1987 budget request 263
  General fund of Treasury 271
  Gramm-Rudman-Hollings sequestration 271
  Legislative proposal 267
  Local government fiscal assistance trust fund 269
  Office of Revenue Sharing Salaries and Expenses 267
  Opening statement 264
  Program funding 273
  Program mission and responsibilities 266
  Proposed rescission 268
  Proposed rescission of budget authority 270
  Quarterly payments 272
  Study conclusion 272

Selective Service System 335
  Automated data processing 388, 347
    Costs 349
  Budget justification 353
  Classification Information Booklet 344
  Closing remarks 352
  Comment period for new regulations 343
  Compliance costs 348
  Contracting out ADP work 347
  Cost of registration 348
  Draft board hearings 344
  Gramm-Rudman-Hollings 343, 352
  Nonregistrants 346
  Number of registrants 346
  Personnel compensation 350
  Public awareness 348
  Registrant information management systems 349
    Cost 349
  Reserve Forces officers 351
  Reserve Forces and mobilization exercises 349
  Serving the public 338
  Statement of the Director 336, 339

769